DIGITAL DOMAIN

DIGITAL DOMAIN HOLDINGS LIMITED
數字王國集團有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code : 547)

ENTERTAIN
INFORM INSPIRE

ANNUAL
REPORT
2020

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director
Mr. SEAH Ang
(Acting Chairman and
Chief Executive Officer)

Non-executive Directors
Mr. JIANG Yingchun
Mr. CUI Hao
Mr. WANG Wei-Chung
Mr. Sergei SKATERSHCHIKOV

Independent Non-executive Directors
Mr. DUAN Xiongfei
Ms. LAU Cheong
Mr. WONG Ka Kong Adam
Dr. Elizabeth Monk DALEY

AUDIT COMMITTEE

Mr. DUAN Xiongfei (Chairman)
Ms. LAU Cheong
Mr. WONG Ka Kong Adam

REMUNERATION COMMITTEE

Mr. DUAN Xiongfei (Chairman)
Mr. SEAH Ang
Ms. LAU Cheong
Mr. WONG Ka Kong Adam

NOMINATION COMMITTEE

Mr. DUAN Xiongfei (Chairman)
Mr. SEAH Ang
Ms. LAU Cheong
Mr. WONG Ka Kong Adam

COMPANY SECRETARY

Ms. FOK Lai Yan

STOCK CODE

547

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM11, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 1201, 12/F., Li Po Chun Chambers
189 Des Voeux Road Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

MUFG Fund Services (Bermuda) Limited
4th Floor North
Cedar House, 41 Cedar Avenue
Hamilton HM 12, Bermuda

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of China Limited
Bank of China (Hong Kong) Limited
China CITIC Bank International Limited
China Construction Bank (Asia) Corporation Limited
Citibank India
East West Bank
EverTrust Bank
Industrial and Commercial Bank of China Limited
Royal Bank of Canada

INDEPENDENT AUDITOR

BDO Limited
Certified Public Accountants

SOLICITOR

Reed Smith Richards Butler

digitaldomain.com

Digital Domain
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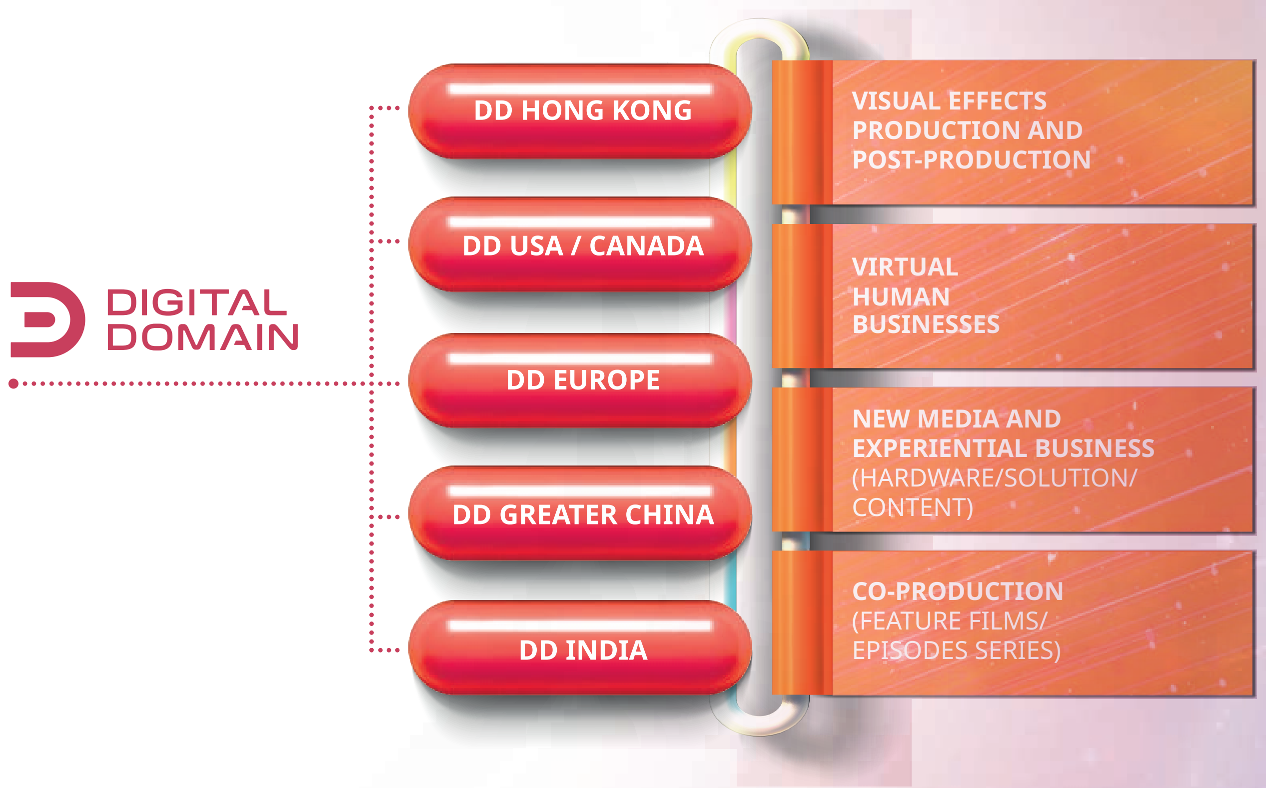
DigitalDomain
數字王國

DIGITAL DOMAIN CREATES TRANSPORTIVE EXPERIENCES THAT ENTERTAIN, INFORM AND INSPIRE.

The Company is a pioneer in many fields, including VISUAL EFFECTS , VIRTUAL REALITY and VIRTUAL HUMANS.

A creative force in visual effects and media applications, Digital Domain and its predecessor entities have brought artistry and technology to hundreds of motion pictures, commercials, video games, music videos and virtual reality experiences. Staff artists have won more than 100 major awards, including Academy Awards, Clios, BAFTA awards and Cannes Lions.

Digital Domain has offices in Los Angeles, Vancouver, Montréal, Luxembourg, Hyderabad, Beijing, Shanghai, Shenzhen, Taipei and Hong Kong. The following is a simplified chart of major businesses of the Group.



Note
For details and full names of these businesses/projects/companies, please refer to "Chief Executive Officer's Review" section of this report on pages 6 to 41.

CHAIRMAN'S STATEMENT

> "Digital Domain continues its rich history of creating world-class premium visual effects, post-production and animation for its clients like previous years."

2020 was an extremely tough year for the Group and other businesses. Following the global outbreak of the novel coronavirus ("COVID-19") in early 2020, governments and non-governmental organisations attempted to contain the spread of COVID-19 through the suspension of economic activity, and the imposition of quarantines, travel restrictions and bans. These efforts have inadvertently created adverse impacts on macro-economic activities across the world. We believe the business environment in 2021 will be challenging and we expect many unpredictable changes in the months ahead. Digital Domain will continue our conservative approach and look to enhance our business relationships with our clients and strategic partners.

Even under the restrictions imposed by the global response to the pandemic, Digital Domain has continued to build on our rich history of creating world-class premium visual effects, post-production services and animation for our clients. Digital Domain leads the entertainment industry by combining the best digital artistry with the most advanced technological innovations, especially in the cutting-edge field of Virtual Human technology.

In February 2020, we officially opened our Montréal Studio in Québec, Canada. In early 2021, the Group announced a new business plan by stepping into the European market with the formation of a joint venture company: Digital Domain Capital Partners S.á r.l. ("DDCP"), in Europe with a strategic partner. These are important milestones for our global business plan – our footprint began in North America, spread to Asia and is now expanding to Europe.

We plan to use DDCP to generate increasing interest in our services and technology in Europe and other markets, and we anticipate future business cooperation with European listed companies and clients.

Thank you to everyone in the Digital Domain family, including all of our partners around the globe and the thousands of artists and innovators who call Digital Domain home. It is truly an honour to create more chapters of the Digital Domain legacy with each and every one of you.

SEAH ANG (DANIEL)
Acting Chairman

Hong Kong, 31 March 2021

CHIEF EXECUTIVE OFFICER'S REVIEW

"I would like to extend my utmost appreciation to our Shareholders, Staff and other valued stakeholders for their continued confidence and support. We will continue to work hard to deliver the ongoing and future success of Digital Domain."

SEAH ANG (DANIEL)
Chief Executive Officer

FINANCIAL AND BUSINESS REVIEW

During the year ended 31 December 2020, the Group achieved a revenue from continuing operations of HK$601,301,000 (2019: HK$548,125,000), showing an increase of approximately 10% compared to that of the previous year. The gross profit from continuing operations of the Group amounted to HK$64,730,000 (2019: HK$79,082,000) during the year under review, showing a decrease of approximately 18%. The increase in turnover and decrease in gross profit were attributable to the media entertainment segment. As at 31 December 2020, the total assets of the Group amounted to HK$1,497,250,000 (as at 31 December 2019: HK$2,175,050,000). The loss attributable to the owners of the Company from continuing operations for the year was HK$584,205,000 (2019: HK$391,077,000). The loss for the year was approximately HK$626,503,000 (2019: HK$419,579,000). The loss for the year was mainly caused by:

(i) the recognition of non-cash outflow expenses, including:

(a) equity-settled share-based payments for the share options granted between 2014 and 2020 to the value of HK$7,943,000 (2019: HK$5,113,000);

(b) amortisation and depreciation expenses from the acquisition of 3Glasses Group of HK$$28,664,000 (2019: HK$51,735,000);

(c) amortisation expenses from the investment in episodes series (grouped under "Participation Rights") of HK$37,057,000 (2019: HK$43,967,000);

(d) other amortisation and depreciation expenses (besides the two items mentioned above but excluding depreciation related to Right-of-use Assets) to the value of HK$53,346,000 (2019: HK$39,007,000); and

(e) impairment losses of cash generating units (CGUs) of HK$305,119,000 (2019: HK$74,419,000);

(ii) administrative and other project expenses; and

(iii) operating losses from the media entertainment segment.

MEDIA ENTERTAINMENT SEGMENT

During the year under review, this segment from continuing operations recorded a revenue of approximately HK$601,301,000 (2019: HK$548,059,000) and incurred a loss of approximately HK$518,676,000 (2019: HK$277,867,000). The loss included the impairment loss on goodwill of HK$305,119,000 (2019: HK$74,419,000) and research and development costs incurred during the year under review relating to virtual reality technology and virtual human technology.

"The earnings before interest, tax, depreciation and amortisation (EBITDA)" of the media entertainment segment from continuing operations (including the impairment loss on goodwill of HK$305,119,000 (2019: HK$74,419,000)) for the year ended 31 December 2020 was a loss of HK$432,222,000 (2019: HK$199,296,000). EBITDA is not a standard measure under the Hong Kong Financial Reporting Standards (HKFRS) but is a widely used financial indicator of a company's operating performance. EBITDA should not be considered in isolation or be construed as an alternative to cash flows, net income or any other measure of performance, or as an indicator of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA for the media entertainment segment is calculated based on the loss of the segment for the period but does not account for taxes, interest expenses, depreciation (of the segment's property, plant and equipment) and amortisation charges (on the segment's intangible assets).

A. Visual Effects Production and Post-Production Business

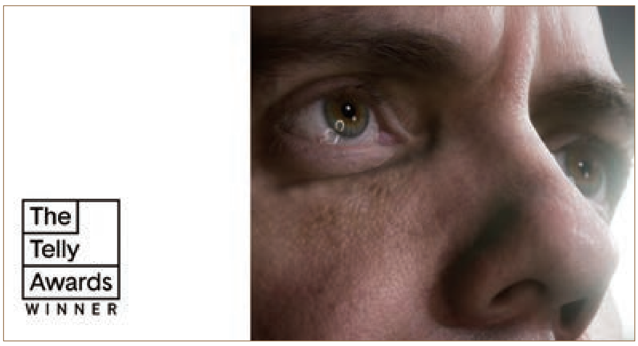
This segment provides visual effects ("VFX") production and post-production services which include visualisation, previsualisation, postvisualisation, visual effects, computer graphics ("CG"), animation, motion capture, virtual production and design for major motion picture studios, networks, streaming services, advertisers, brands and games.

Digital Domain North America (DDNA) - USA and Canada:

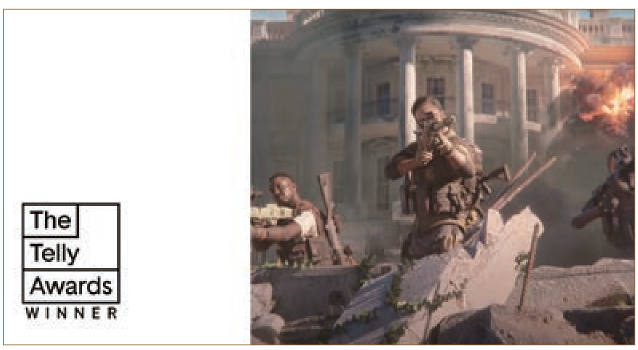
The following list of recent awards and nominations offers recognition for Digital Domain's artists and technology:

The Telly Awards

Director of the Virtual Human Group, Mr. Darren HENDLER; Senior Director of Software R&D, Dr. Doug ROBLE, and their team won a silver craft award for "Digital Humans that Look Just Like Us".



Director Mr. Pierre MICHEL-ESTIVAL, Visual Effects Supervisor Mr. Matt DOUGAN, Producer Ms. Alexandra MICHAEL, and their team won a bronze craft award for the online commercial spot for "Tom Clancy's The Division 2".



Association of Independent Commercial Producers (AICP)

Visual Effects Supervisor Mr. Matt DOUGAN and his team were shortlisted for an AICP Post Award in the CGI category for their work on "Tom Clancy's The Division 2".

Lead Compositor Mr. John BRENNICK and his team were shortlisted for an AICP Post Award in the Compositing and Visual Effects category for their work on P!NK's "Walk Me Home (Official Music Video)".

Hollywood Professional Association (HPA)

Visual Effects Supervisor Mr. Aladino DEBERT and his team were awarded a HPA award for Outstanding Visual Effects – Episodic Feature (Under 13 Episodes) for "Lost in Space – Shipwrecked".

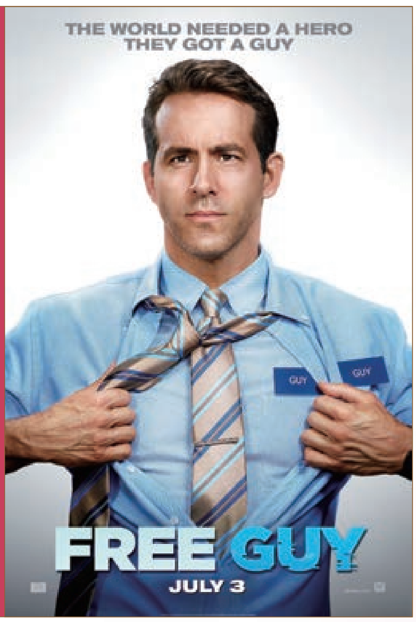
Hollywood Professional Association (HPA)

Since 1 January 2020, the artists of Digital Domain 3.0, Inc. ("DD3I"), a subsidiary of the Company, have provided VFX services for work including:

"The Rescue" – Visual Effects Supervisors Mr. Jay BARTON and Mr. Jean-Luc DINSDALE delivered this Dante Lam's film.

- **"Morbius"** - Visual Effects Supervisors Mr. Joel BEHRENS, Mr. Matthew BUTLER and their team worked on this highly anticipated Sony Pictures film directed by Daniel Espinosa, scheduled for release in 2022.

"Free Guy" - Visual Effects Supervisor Mr. Nikos KALAITZIDIS and his team worked on Shawn Levy's action-comedy following a bank teller who discovers that he's actually an NPC inside a brutal, open world video game. The film is scheduled for release in 2021.



"Black Widow" – Visual Effects Supervisor Mr. Dave HODGINS and his team worked on Marvel Studios' film following Natasha Romanoff on her quests between the films "Captain America: Civil War" and "Avengers: Infinity War". The film is scheduled for release in 2021.

- **"Chaos Walking"** - Visual Effects Supervisor Mr. Mitch DRAIN and his team continue to work on director Doug Liman's film about a dystopian world where there are no women and all living creatures can hear each other's thoughts in a stream of images, words, and sounds called Noise. The film is scheduled for release in 2021.

- **"Shang-Chi and the Legend of the Ten Rings"** Visual Effects Supervisor Mr. Hanzhi TANG and his team began work on the Marvel Studios film scheduled for release in 2021.

- **"Doctor Strange in the Multiverse of Madness"** DDNA team began work on the next installation in the Doctor Strange series. The film is scheduled for release in March 2022.

- **"Fantastic Beasts and Where to Find Them 3"** – Visual Effects Supervisor Mr. Jay BARTON and his team began work on Warner Bros.' third installation in the "Fantastic Beasts" series expected in July 2022.

- **"Untitled Spider-Man Sequel"** – Visual Effects Supervisor Mr. Scott EDELSTEIN and his team began work on the third instalment of the Spider-Man franchise expected in December 2021.

- The DDNA team also contributed to a promotional piece for **"Black Adam"** due out in 2022.

Digital Domain's visual effects teams have completed work on several episodes for hit television and streaming shows such as:

- CBS's **"Twilight Zone"** – Visual Effects Supervisor Mr. Mitchell S. DRAIN led a team of artists in creating the visual effects for five episodes of Netflix's second season of "The Twilight Zone". Digital Domain's artists produced a total of 140 shots across the season which included the creation of a very complex creature.

- **"Perry Mason"** – Visual Effects Supervisor Mr. Mitchell S. DRAIN led artists based in Los Angeles to complete nearly 140 shots for the HBO miniseries that included historically accurate environment work reconstructing 1930s LA surrounding the "Angel's Flight" railway.

- **"WandaVision"** – Visual Effects Supervisor Mr. Marion SPATES and his team delivered work on the new Marvel Studios series scheduled for release in 2021.

- **"Carnival Row"** season 2 – Visual Effects Supervisor Mr. Aladino DEBERT and his team continue to work on the second season of Amazon Studios' fantasy series scheduled for release in 2021.

- **"Loki"** – Visual Effects Supervisor Mr. Jean-Luc DINSDALE and his team have begun work on the new Marvel Studios series scheduled for release in 2021.

- **"Ms. Marvel"** – the DDNA team began work on the new Marvel Studios series, scheduled for release in late 2021.

Digital Domain's visualisation studio provided previsualisation services for features and shows such as:

- Marvel Studios' **"Dr. Strange 2"**
- Fox's **"The Orville"**
- Fox Studios' **"Free Guy"**
- Sony Pictures' **"Morbius"**
- Marvel Studios' yet-to-be-titled third **"Spider-Man"** installment
- Warner Bros.' **"Fantastic Beasts and Where to Find Them 3"**
- Marvel Studios' untitled **"Black Panther"** sequel

Additionally, the visualisation team provided previsualisation services for the following commercials **"Cross X"**, a :40 game trailer, and a :60 trailer for the game known as **"Game for Peace/PUBG"**.

The team also provided motion capture services for a number of projects including:

- An undisclosed AAA video game company for a game cinematic

- **"Clash of Clans: King of Clash Trivia Show"**

- Legendary Film's **"Dune"** for a stunt motion capture shoot

- Sucker Punch Productions/Sony Interactive's **"Ghost of Tsushima"** game cinematic which provided final body and face animation

- A motion capture shoot for a AAA game cinematic releasing in 2021 for The Werk Howse

We provided VFX services for advertisements, special venue projects and games. Work completed in 2020 includes:

a. Led by Director Mr. Aladino DEBERT and Visual Effects Supervisor, Mr. Matt DOUGAN, Digital Domain partnered with agency AKQA, to create a :60 game cinematic with additional cutdowns for the game **"Ghost of Tsushima."**

- Director Mr. Pierre MICHEL-ESTIVAL and team partnered with DD China and DD India to direct and provide previsualisation services for Tencent, for a :60 CG trailer for **"Game of Peace."**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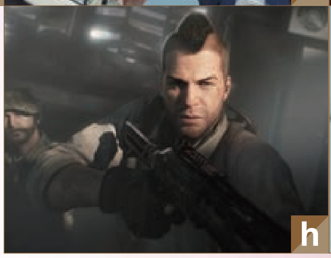
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- **b** Visual Effects Supervisor Mr. Piotr KARWAS partnered with 72andSunny for a 2D flame job for **Pluto TV**.

- **c** Visual Effects Supervisor Mr. Piotr KARWAS and team worked on **Magic Leap's** watch video ad for HBO.

- **d** For Microsoft's Xbox, Visual Effects Supervisor Mr. Piotr KARWAS and team delivered a two-minute game cinematic trailer for **"Perfect Dark."** This was a collaboration with The Initiative and Buddha Jones.

- **e** For **Reynolds**, Digital Domain teamed up with Havas Chicago to create three fifteen second spots that included live action shoot, design, editorial and finishing services.

- The team delivered a :30 game trailer for Microsoft's **"CrossfireX,"** utilising the Unreal engine. The work also included capturing the likeness of four high profile influencers to create and include in the trailer.

- **f** For 72andSunny, the team delivered 80+ versions of a live action spot for American celebrity skateboarder **Tony HAWK**, for which we handled all finishing work (cleanup, beauty and online).

- Partnering again with 72andSunny, the Digital Domain ad/games group completed 2D logo animation for **"Call of Duty"**.

- Director Aladino DEBERT is directing a 5-minute game trailer for Tencent called **"Perfect World"**. DDNA is responsible for script writing, previsualisation, motion capture and creative direction. The project is due to be delivered in 2021.

- For **"World of Warcraft"** the team completed finishing work executing 500 final deliverables for the 72andSunny spots.

- VFX Supervisor Mr. Piotr KARWAS and team are working on an 8-minute film for Electronic Arts Inc.'s **"APEX Legends"** involving a blend of design, CG, 2.5D and cell animation. The work is due to be delivered in 2021.

- Led by Executive Creative Director Mr. Kevin LAU, the team has completed work on three separate campaigns for the popular fast food chain **Wendy's** which include design, motion graphics, edit, flame, colour and finishing work.

- **g** Partnering with 72andSunny, the team delivered 2D design and flame finishing work for **Smirnoff**.

- For **"League of Legends"**, the team conducted a Riot animation test.

- **h** VFX Supervisor Mr. Scott EDELSTEIN and team delivered a :90 game trailer for **"Call of Duty: Mobile"** in China in collaboration with client Tencent.

- **i** Partnering with 72andSunny and The National Football League (NFL), the ad/games group begun producing a large-scale project for the **SuperBowl**. The project involves recreating a deceased American football legend and utilises our proprietary Charlatan software along with 2D Flame manipulation. The team will be handling the day of the event, showcasing a hologram on the field as well as delivering a pre-rendered :90 commercial. All traditional VFX (matte painting, sky replacement and cleanup) and finishing is to be done by DDNA. The project debuts in February 2021.

Possible Indemnification

A wholly-owned subsidiary of the Company based in the United States (the "US Subsidiary") has used a combination of physical equipment and intellectual property to record images of human faces (the "Disputed IP"). The Disputed IP is one of several different technologies available to capture elements of a human face prior to visual effects enhancements that create the final image. The US Subsidiary's use of the Disputed IP had been under a 2013 license from an unaffiliated company based in the PRC (the "Original Owner").

In 2014, a dispute over the ownership of the Disputed IP between the Original Owner and another company based in the United States (the "Claimant") resulted in the filing of a lawsuit (the "Lawsuit") in the United States District Court, Northern District of California. Neither the Original Owner nor the Claimant is a member company of the Group. Another subsidiary of the Company agreed in 2015 to purchase the Disputed IP. The completion of the transfer of such Disputed IP is subject to the favourable outcome of the Lawsuit. On 11 August 2017, the court issued a statement of decision which concluded that the Claimant owned the Disputed IP. The US Subsidiary had already used alternative technologies. On appeal of the statement of decision, the court of appeal upheld the decision of the trial court that the Claimant was the owner of the Disputed IP.

During 2017, the Claimant filed four separate lawsuits against certain clients of the US Subsidiary relating to the use of the Disputed IP for certain visual effects projects that the US Subsidiary had completed ("Other Lawsuits"). The US Subsidiary's clients filed two separate motions to dismiss the lawsuits brought against them. In response to these motions, the court dismissed a significant portion of the claims, but allowed the Claimant to proceed with litigation on the remaining portion of the claims for unspecified monetary damages. The Claimant later voluntarily dismissed several of its claims.

The US Subsidiary's clients filed a motion asking the court to summarily decide certain portions of the remaining claims in their favour. The court has allowed both parties in the Other Lawsuits to conduct additional research and investigation into these remaining claims before hearing further arguments both in favour of and against the motion. Both parties have now submitted their written legal briefs. The court may decide the motion without holding a hearing to allow oral argument or will schedule oral argument before issuing a decision. No hearing date is presently scheduled.

In its production services agreements for the projects that are the subject of the Other Lawsuits, the US Subsidiary agreed to certain indemnification obligations with respect to claims brought against these clients arising from allegations that the technology it used was not properly licensed or acquired. As a result, these clients have requested that the US Subsidiary acknowledge its obligation to indemnify them for any losses suffered as a result of their involvement in the Other Lawsuits. The US Subsidiary has submitted these indemnity requests to one of its insurance companies that may provide insurance coverage for indemnity claims brought against it. The insurance company initially acknowledged its obligation to provide a defence for the US Subsidiary's clients, but subsequently communicated to the US Subsidiary that it no longer believed that coverage existed under the insurance policy but would continue to negotiate with the US Subsidiary about contributing to the defence of the clients in the Other Lawsuit. The insurance company and the US Subsidiary are continuing their discussions with respect to whether, and to what extent the insurance company will pay the defence costs of the US Subsidiary's clients in the Other Lawsuits.

Digital Domain China:

Through the investment in Lucrative Skill Holdings Limited ("Lucrative Skill") in April 2016 - the holding company of the Post Production Office group of companies (collectively rebranded as Digital Domain China ("DD China")), the Group made significant progress in establishing a strong operating platform in China with studios located in Beijing and Shanghai.

DD China provides VFX production and post-production services for commercials, TV drama series, and feature films in China, including offline and online editing, compositing, colour grading, design, music and audio, CG and VFX production. It also provides production services for the making of commercials, VR/360° videos and feature films.

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Visual effects and colour grading services delivered for feature films and TV drama series this year include **"Leap"**, **"Coffee or Tea?"**, **"Soul Snatcher"**, **"Legend of Fei"**, **"The Rescue"**, **"The Yin-Yang Master: Dream of Eternity"**, **"The Yin-Yang Master: Dream of Eternity"** (Dolby Vision), **"Summer Blur"**, and **"Ban Lang Chuan Shuo"**, as well as the upcoming **"National Interest Absolute Loyalty"**.

1. Leap
2. National Interest Absolute Loyalty
3. Coffee or Tea?
4. The Yin-Yang Master: Dream of Eternity
5. Soul Snatacher
6. Legend of Fei
7. The Rescue

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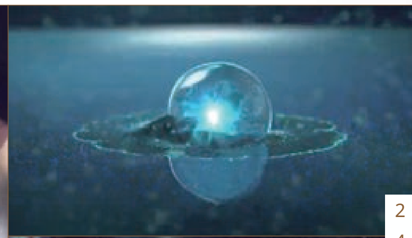
In 2020, DD China continued to provide post-production and production (e.g. shooting, editing, colour grading and music production) services for various high-profile commercials profiling leading brands like **adidas**, **Biotherm**, **BMW**, **BVLGARI** (ft. Maizi), **Coca-Cola**, **DIOR**, **Dove**, **FAW-Volkswagen**, **FOREO**, **fresh**, **Greenpeace**, **Häagen-Dazs**, **HUAWEI**, **L'Oréal Paris**, **McDonald's**, **Mercedes-Benz**, **OMO**, **OPPO** (ft. Derek Tsang, Zhou Dongyu and Li Yifeng), **PizzaHut**, **PHILIPS**, **Porsche**, **SHISEIDO**, **SINOBO GROUP**, **Taobao** (ft. Derek Tsang), Tmall - **CHINA COOL**, Tencent Games - **"Call of Duty: Mobile (CODM)"**, Tencent Games - **"Game For Peace"**, Tencent Video - **"Everybody Stand By"** Season 2, **VOGUE China**, **Yili**, **Youdao**, and Youku - **"We Are Young"**.





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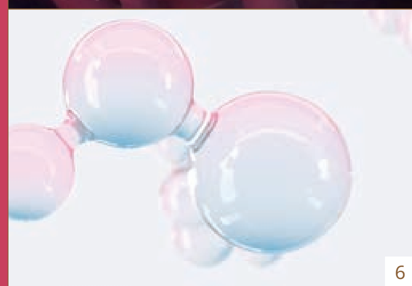
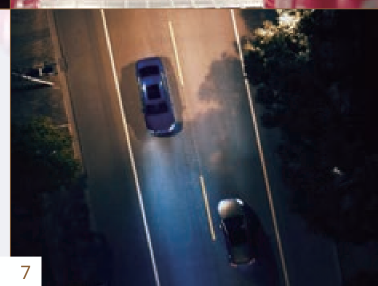
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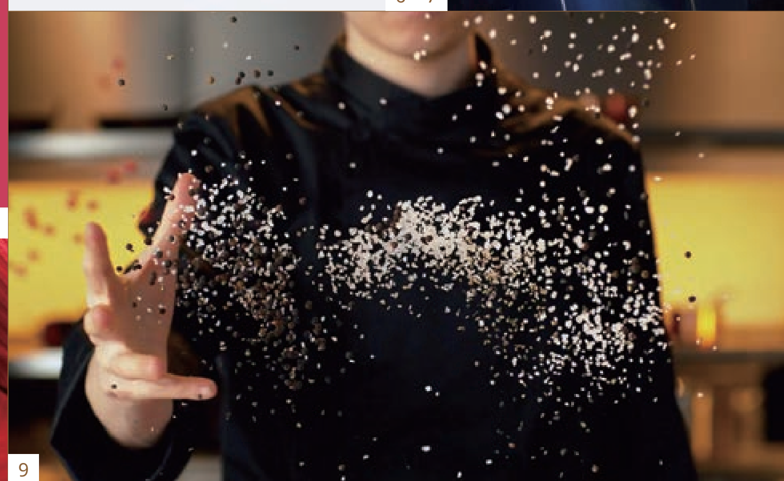
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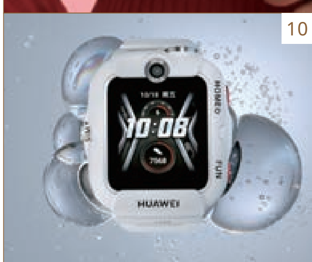

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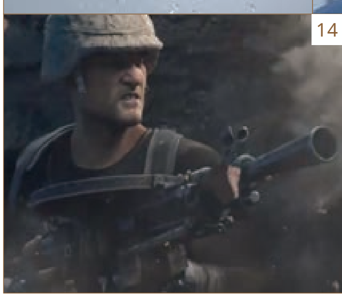
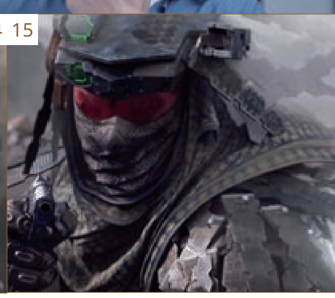
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1. adidas
2. Biotherm
3. BMW
4. BVLGARI (ft. Maizi)
5. Coca-Cola
6. Dove
7. FAW-Volkswagen
8. Häagen-Dazs
9. PizzaHut
10. HUAWEI
11. PHILIPS
12. OPPO (ft. Derek Tsang, Zhou Dongyu and Li Yifeng)
13. Mercedes-Benz
14. Tencent Games - "Game For Peace"
15. Tencent Games - "Call of Duty Mobile (CODM)"

Digital Domain India:

Since 2017, Digital Domain's facility in Hyderabad has worked closely with our North America and China studios and has been an integral part of the Global Production Strategy as well as adding value to the growing visual effects market in India.

Digital Domain India ("DD India") provides services across platforms for features, television, web and over-the-top (OTT) media. DD India considers data security to be of the utmost importance and has undertaken content security audits from The Motion Picture Association of America, Inc. ("MPAA"), Walt Disney Studios Motion Pictures ("Disney") and Marvel Studios, LLC ("Marvel"). DD India is a certified and secure facility which can handle content for all A-list Hollywood and other international shows. DD India also completed the annual assessment process conducted by Trusted Partner Network (TPN), a joint venture between two major entertainment industry associations, the MPAA and the Content Delivery & Security Association (CDSA), the worldwide leaders in third-party entertainment industry assessments.

In 2020, DD India has delivered quality work on schedule while dealing with global COVID-19 challenges. Going into 2021, DD India plans to increase its overall production contribution and increase delivery volumes as part of a long-term expansion plan.

B. Virtual Reality/Augmented Reality, New Media and Experiential

This segment includes augmented reality ("AR"), immersive and virtual reality ("VR") technology services using 360 degree digital capture technology and CG.

Digital Domain offers a variety of products and services in the emerging VR market. The Company has developed a VR streaming platform and interactive toolset to support an end-to-end solution from concept to consumption of immersive content. Digital Domain teams use proprietary cameras and software for capturing 360 degree video footage, and their digital artists produce VR experiences in real time and for video on demand (VOD). In addition to using its own app for hosting VR content, Digital Domain technical teams also create custom VR apps for brands and telecommunication entities.

Digital Domain's VR, AR, New Media and Experiential team executed several livestream broadcasts, experiences and installations in 2020:

- In December 2020, the Digital Domain team delivered the **"ARK II"** Reveal Trailer that aired at the 2020 Game Awards. The work included video game cinematic asset work for two characters. Supervised by Mr. Matt DOUGAN, VFX Supervisor, Digital Domain teamed up with Studio Wildcard to create a near-photo real likeness of Vin Diesel playing 'Santiago', the main character, as well as the main female child character. Digital Domain was responsible for asset look development and talent acquisition.

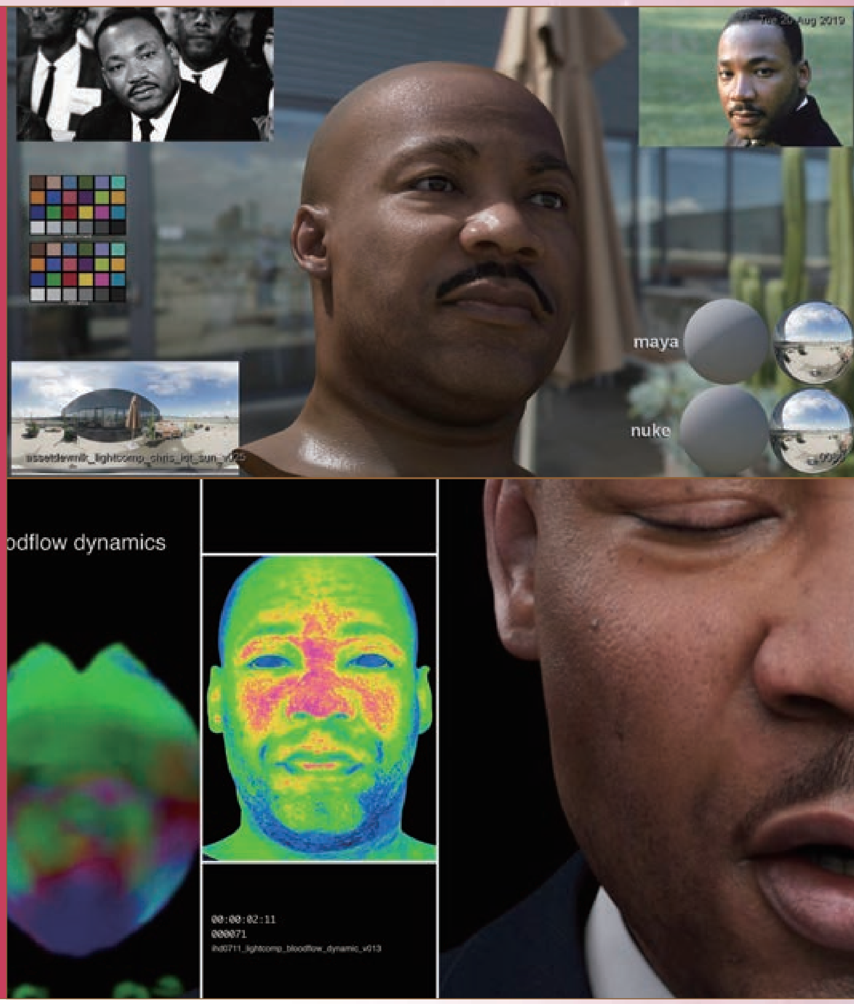
- Digital Domain and an undisclosed AAA Game Company partnered up in 2019 to embark on their biggest, highest quality video game featuring over 30 hours of captured facial and body performance capture. The project leverages Masquerade 2.0, Digital Domain's proprietary facial capture process throughout all talent capture on this truly massive new game project. Supervised by Mr. Aruna INVERSIN, VFX Supervisor and Creative Director of New Media, this **undisclosed AAA game** title is currently in production and scheduled for release in 2022.

- In collaboration with the Advertising, Games and New Media and Experiential teams, virtual human team's face-swapping technology, "Charlatan", was used to help add 30 years to David Beckham's face for a powerful new campaign from the charity Malaria No More. The film, titled **"Malaria Must Die"** was supervised by Mr. Dan BARTELUCCI, VFX Supervisor, and released in December 2020.

- Digital Domain joined forces with Las Vegas powerhouse agency R&R Partners to continue DD's relationship with Blockchains LLC, one of R&R's main accounts, to produce five 2-minute explainer films showcasing their proposed new **"smart city"**. This will be a physical but virtually supported, brand new city that is currently being planned for construction in Nevada, run entirely on cryptocurrency. Executive Creative Director Mr. Kevin LAU and DD's motion graphics team took on this story-telling challenge to create beautiful yet simple graphics that explain very complex themes and the various structures that it takes to build a "decentralised" city. This project will be delivered in 2021.

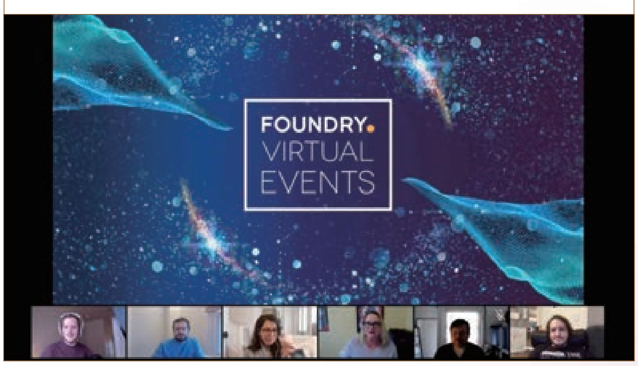
- Digital Domain teamed up with artist Lina RASSBAKKEN and team to create 11 unique real-time characters and assets for use in the interactive VR experience titled **"NORN"**. Based on Nordic mythology and folklore, this story called for Digital Domain to create various organic models, from human apparitions to fantastical animals that resemble a water bear. Executed by Digital Domain's studio in Beijing, this project was delivered in December 2020 and there are plans for an awards circuit tour as well as public release in the first quarter of 2021.

- Digital Domain teamed up with TIME magazine and other partners to create an immersive VR experience with a 3D re-creation of Dr. Martin Luther King Jr. (MLK) at the 1963 March on Washington called **"The March"**, which premiered at the DuSable Museum of African American History in Chicago in February 2020. Supervised by Mr. Aruna INVERSIN, this fully immersive experience begins with a walk down Constitution Avenue. As MLK begins to speak, the viewer travels closer to his podium ultimately coming to stand just a few feet away to experience five minutes of key moments from his iconic "I Have a Dream" speech. TIME magazine did a multi-article issue on this project in February 2020 which featured Digital Domain's digital likeness/recreation of MLK on the cover, marking a truly historic moment for the Company.



Digital Domain staff from the global studio participated in several events this year:

- Mr. Deke KINCAID, Senior Pipeline Supervisor, shared his insights and experience at the **"Nuke TD Roundtable"**, part of Foundry's Virtual Events Series, exploring what technical directors and technical artists do and why it's a good career.



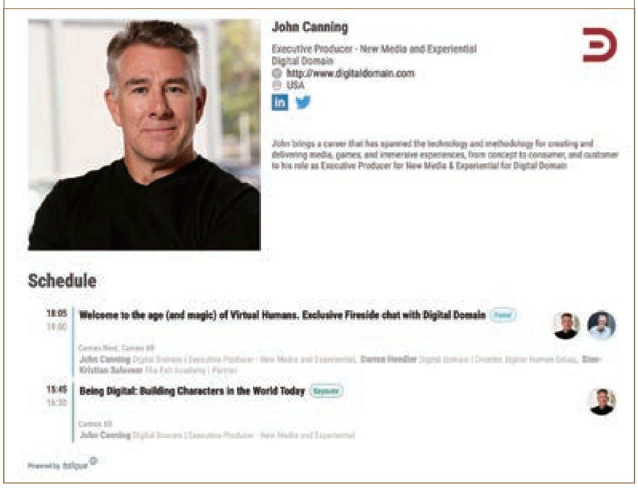
- Mr. John CANNING, Executive Producer of New Media and Experiential, gave a "Trailblazer Talk" for **#AIShowBiz** on the topic of "Creating Digital Characters and Worlds in the New Normal."

- Mr. John CANNING participated in a panel for **VES online** discussing Real-Time Virtual Humans.

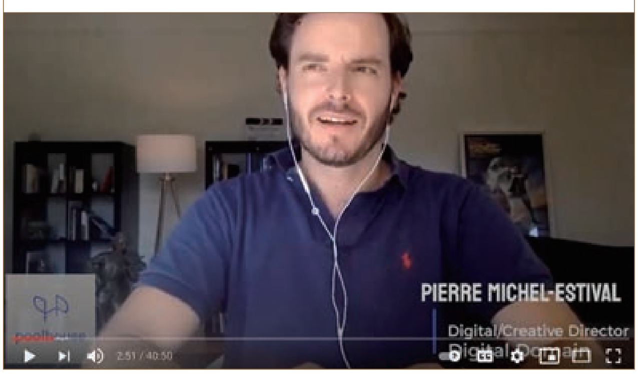
- Mr. John CANNING participated as a moderator for **Digital Hollywood** on a panel discussion titled "Virtual Hollywood Production and Immersive Entertainment".

- Mr. John CANNING joined Keran Malicki-Sanchez for a conversation at the **Virtual & Augmented Reality World Conference & Expo (VRTO)**, covering a wide range of concepts and production anecdotes centred around the art of capturing humans, monsters and historic figures in such a way that they are indistinguishable from the real thing.

- For the **CANNES XR** festival, Mr. John CANNING presented a keynote titled "Being Digital: Building Characters in the World Today" which focused on the intersection of video with the interactivity of real-time engines and how this is creating brave new possibilities for digital characters and performances.

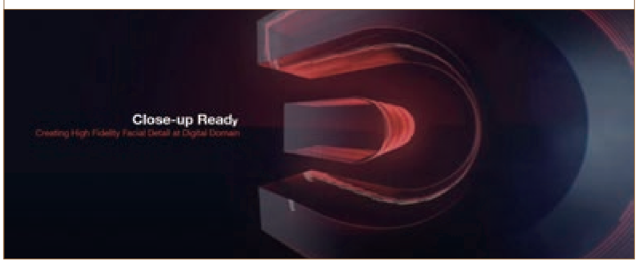


- Mr. Pierre MICHEL-ESTIVAL, Director & Creative Director of Advertising and Games, discussed his work and process at **Poolhouse's "Let's Get Remote: The Post-Production Series"** online forum.



- Mr. Jan Philip CRAMER, Head of Animation, presented a master class on facial animation for the **Langara Centre for Entertainment Arts** to showcase techniques that result in the most realistic and best possible facial animation from motion capture or keyframe animation.

- Ms. Asuka Tohda KINNEY, CG Supervisor, presented "Close-up Ready: Creating High-Fidelity Facial Detail at Digital Domain" for the **Chaos Group's "24 Hours of Chaos"** virtual conference.



- Mr. Aruna INVERSIN participated in a VFX tell all for the **Visual Effects Society/AutoDesk's "Ask Me Anything"** series.

C. Virtual Human Business (North America and Greater China regions)

The Group remains strongly committed to business development in the area of virtual human technology, and continues to seek opportunities for financing and collaboration with strategic partners, and the recruitment of appropriate global talent.

The Virtual Human Group (VHG) of the North America region participated in several events this year, including:

- Dr. Doug ROBLE, Senior Director of Software R&D, was invited to give an online keynote presentation at the **RealTime Conference 2020** which detailed how he and our VHG successfully introduced the world to DigiDoug, a photorealistic avatar who took the stage in real-time for the TED Conference in 2019. This presentation discussed where we are now with the technology, concentrating on the "real" in both 'real-time' and 'photoreal'.

- At NVIDIA's GTC, Dr. Doug ROBLE also presented "Photorealistic, Real-Time, Digital Humans: From Our TED Talk to Now" which delved into how the team achieved their **2019 TED** presentation solving real-time human problems and what they've been working on since: increasing the fidelity of the rendered character, creating the ability to easily have someone else drive a character, creating autonomous characters who can drive themselves and creating new ways to render the character for ultimate fidelity.

- Dr. Doug ROBLE gave an additional internal presentation for **NVIDIA**.

- Mr. Darren HENDLER, Director of VHG, participated in **SIGGRAPH's** spotlight podcast on "Age Manipulation in VFX" which dove into the science, technology and technique behind age manipulation in VFX.

- For **CANNES XR** festival, Mr. Darren HENDLER and Mr. John CANNING participated in a panel called "Welcome to the age (and magic) of Virtual Humans," which explored Virtual Humans, their revolution in cinema and Digital Domain's vision for real-life applications. Exclusive Fireside chat with Digital Domain" at CANNES XR festival.

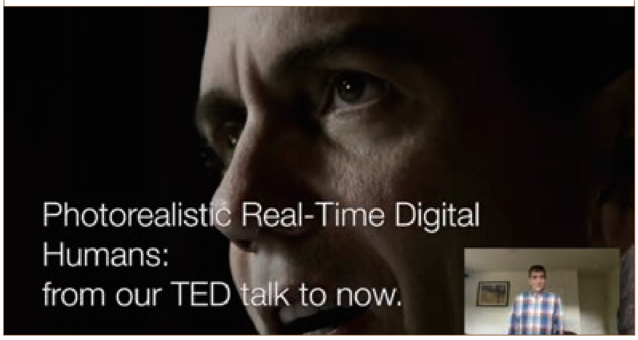
- Dr. Doug ROBLE and Mr. Darren HENDLER presented "Digital Humans Are Back! Creating and using believable avatars in the age of COVID" at **SIGGRAPH Asia**.

- For **SIGGRAPH LA**, Dr. Doug ROBLE presented on AI in VFX.

- For **VFXRio**, Mr. Lucio MOSER, Principal Engineer, presented "Machine Learning Is Disrupting The Entire VFX Pipeline: A Case Study On Facial Motion Capture".

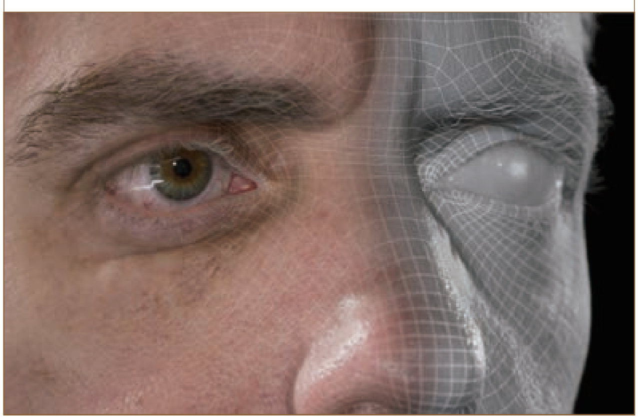
- Dr. Doug ROBLE joined the host of **Intel's AI Podcast** to discuss the technology and AI models that go into creating the complex visuals and virtual humans Digital Domain is working on.

- Ms. Melissa CELL, Software Engineer, participated in a panel for **NVIDIA's GTC** titled "The Future of Location-based Entertainment."

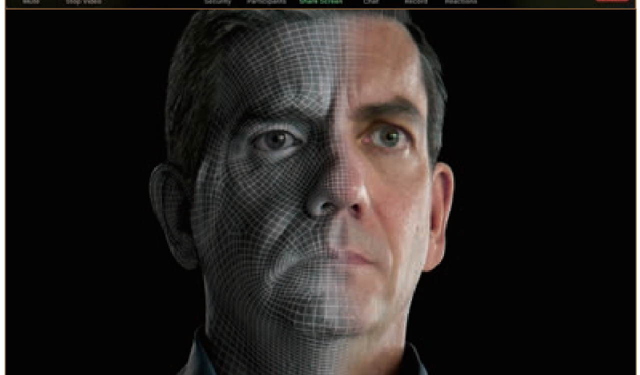


Digital Domain's VHG's research and development aided multiple projects and resulted in new developments in 2020:

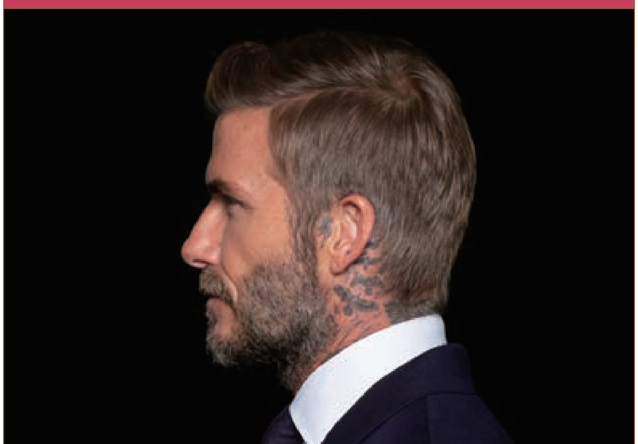
- The team introduced **Masquerade 2.0**, the next iteration of its in-house facial capture system, rebuilt from the ground up to bring feature film-quality characters to next-gen games, episodes and commercials.

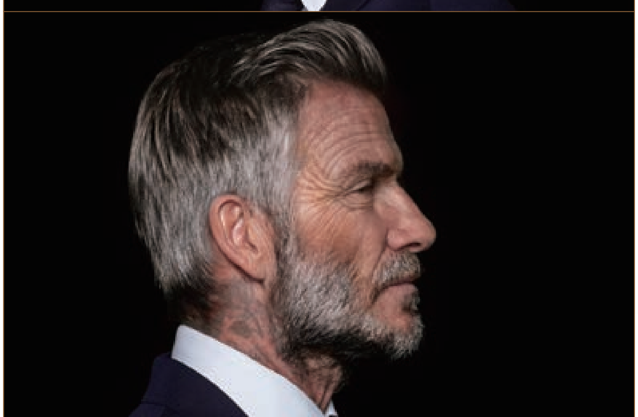


- In November 2020, the team debuted **Douglas**, one of the most realistic real-time, autonomous, digital humans in the world. Currently in development, Douglas is designed to break down the barriers in human-to-machine interactions, yielding conversations that feel natural and easy.



- In collaboration with the Advertising/Games and New Media and Experiential teams, VHG's "Charlatan" was applied to help add 30 years to David Beckham's face for a powerful new campaign from client **Malaria No More**.

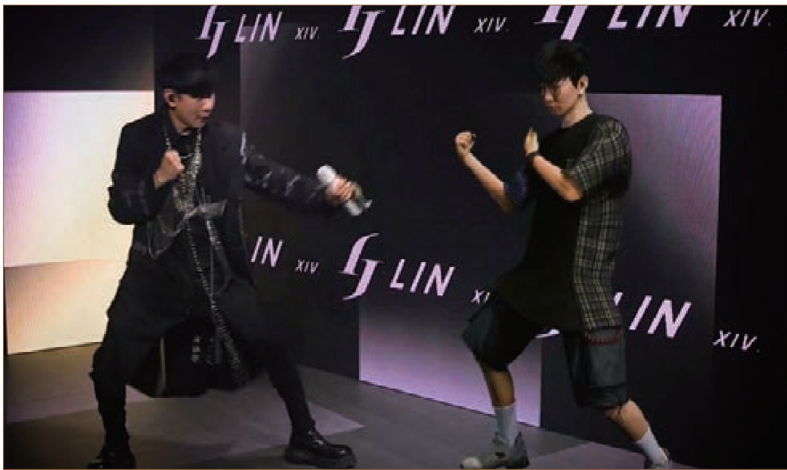


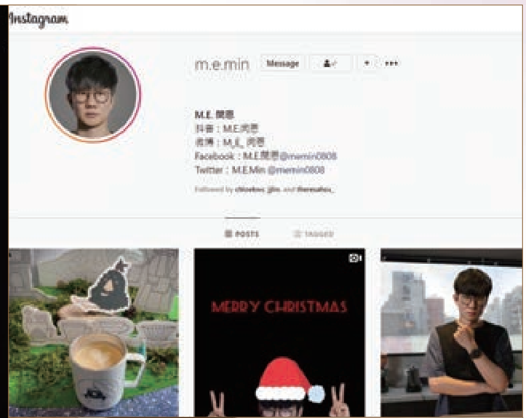


In addition to Virtual Human Teresa Teng, the Group developed other virtual human characters with different business partners (such as famous singers, movie stars or corporations) in the Greater China Region. Since 2018, the Group has created a range of its own virtual human characters/IPs including **Lydia**, **STAR**, **M.E**., **ZEN**, and **Alice**. The Group also deployed resources towards research and development to improve the interaction between virtual human characters and their audiences.

The Group produced or launched other types of virtual human projects in 2020, including:

- In **May 2020**, The Group produced the publicity film **"IMAGINE"** in collaboration with JFJ PRODUCTIONS. **Virtual Human M.E.** appeared in the last shot of the film as a hint of his return in the future.





- In **October 2020, M.E.** appeared as a secret guest in **JJ LIN's "DRIFTER • LIKE YOU DO"** livestream concert. The online concert received 16 million views on that night.

- In **October 2020, M.E.** started his own **social media accounts** including on Weibo, Facebook, and Instagram.

- In **December 2020, Virtual Human ZEN** was designed and created by **Nicholas TSE** and Digital Domain as a virtual human idol, and made her official debut as the MC of Nicholas TSE's online concert **"TME LIVE Rock Concert".** The astonishing content and captivating interaction at the concert attracted millions of viewers online.

- In **December 2020, ZEN** officially launched her **Weibo account**. Interactions between ZEN and Nicholas gained a lot attention from fans. Future performance opportunities and a diversified development plan will be explored and launched for ZEN in 2021.

D. Co-Production

Feature Film:

The film **"Ender's Game"** was released in November 2013 in the US. The film continues to generate income from non-box office channels both within and outside the US. Ender's Game is based on a best-selling, award winning novel. It is an epic adventure starring Harrison Ford, Asa Butterfield, Hailee Steinfeld, Viola Davis, Abigail Breslin and Ben Kingsley. It is distributed by Summit Entertainment in association with OddLot Entertainment and is a Chartoff Productions/ Taleswapper/ OddLot Entertainment/ K/O Paper Products/ DD3I production. The profit sharing from DD3I's participation rights in Ender's Game was recognised under "Other income and gains" in the Group's consolidated income statement.

Episodes Series:

Digital Domain entered a collaboration with Talent Television and Film and Cenic Media to produce **"Ten Years Late"**, an episode which tells an inspiring workplace story set across multiple cities. Digital Domain provided VFX and VR solutions for the drama, to give viewers a high-quality immersive experience. At the same time, Digital Domain also invested in and provided the VFX works for **"The Legends of Monkey King"** from Cenic Media.

During the year under review, HK$55,324,000 (2019: HK$62,095,000) from The Legends of Monkey King (2019: Ten Years Late) was recognised as income arising from broadcasting movies and episodes and was grouped under "Other income and gains" in the Group's consolidated income statement. There were amortisation expenses from investment in the TV drama series mentioned above (grouped under "Participation Rights") of HK$37,057,000 (2019: HK$43,967,000).

E. Investment in "handy"

In 2018, the Group made a US$25,000,000 (approximately HK$196,213,000) equity investment in Mango International Group Limited ("Mango"), and its flagship product **"handy"** which leverages millions of hotel rooms globally to create a comprehensive travel ecosystem encompassing a traveller's end-to-end journey, from pre-trip to in-destination to post-travel. As at 31 December 2019 and 31 December 2020, the investment was classified as a financial asset measured at fair value through other comprehensive income. For the preparation of the annual audit for 2018 and 2019, the Group engaged an independent professional valuer to estimate the fair value of Mango at year end and fair value adjustments (downward) have been made for these two financial years. The fair value adjustment was reflected in the consolidated statement of other comprehensive income with items that will not be reclassified to profit or loss. As at 31 December 2019 and 31 December 2020, the value of the financial asset measured at fair value through other comprehensive income is nil.

INTERESTS IN ASSOCIATES

3Glasses Group

On 22 March 2018, Digital Domain Network Technology Limited ("DD Network", an indirect wholly-owned subsidiary of the Company), Mr. Lin Che Chu George (the "Vendor"), Lead Turbo Limited (the "Target") and a guarantor entered into the agreement (the "Agreement"), pursuant to which DD Network conditionally agreed to acquire (or procure the acquisition of), and the Vendor conditionally agreed to sell, 6,688 ordinary shares of the Target, representing 66.88% of the issued share capital of the Target, at an aggregate consideration (including a contingent consideration of RMB90,000,000, equivalent to approximately HK$112,000,000, by two payments) of up to RMB240,000,000 (equivalent to approximately HK$298,000,000), subject to adjustments. The actual profit for 2019 was lower than the target profit for 2019, therefore, the Group paid part of the contingent consideration (based on the proportion of the actual profit against the target profit) of approximately RMB13,000,000 (approximately HK$14,259,000) according to the terms of the acquisition. The remaining amount of approximately RMB37,000,000 (approximately HK$41,396,000) of contingent consideration being no longer payable was recognised as a change in fair value of contingent consideration and was reflected on the Group's consolidated income statement for the 2019 financial year. For full details of the calculation mechanism, please refer to the Company's announcement dated 22 March 2018.

Pursuant to the Agreement, the Vendor and the guarantor have jointly and severally undertaken to provide a non-interest bearing loan for the amount of RMB20,000,000 (equivalent to approximately HK$25,000,000), and DD Network has undertaken to provide a non-interest bearing loan for the amount of RMB30,000,000 (equivalent to approximately HK$37,000,000), to the Target.

Contractual Arrangements – please refer to pages 17 to 21 of the Company's Annual Report 2019.

On 17 July 2020 (after the trading hours of the Stock Exchange), DD Network and a purchaser ("Purchaser") entered into a disposal agreement, pursuant to which the Purchaser conditionally agreed to acquire, and DD Network conditionally agreed to sell, the relevant shares, representing 22.29% of the issued share capital of the Target, at an aggregate consideration of HK$102,000,000.

As certain applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the disposal exceed 5% but are less than 25%, the disposal constitutes a disclosable transaction for the Company pursuant to Rule 14.06 of the Listing Rules and is therefore subject to notification and announcement requirements under the Listing Rules. For details, please refer to the Company's announcement dated 17 July 2020.

The above mentioned disposal was completed on 31 July 2020 and 3Glasses Group become a group of associates (changed from a group of non-wholly owned subsidiaries) of the Company.

3Glasses Group is principally engaged in the research, development and sale of VR hardware, smart wearable devices, VR software development kit and other related products, under the brand name of "3Glasses ". The 3Glasses Group management team has more than 10 years of experience in VR technology development and is a pioneer in providing VR solutions in the PRC. 3Glasses Group's major product is a self-developed VR headset, which is a head-mounted display device that provides a VR experience for wearers and is widely used with computer games, simulators and trainers. 3Glasses Group has launched China's first (the world's second) VR headset (3Glasses D1) and China's first mixed reality headset (3Glasses Blubur S1, development version for Microsoft). 3Glasses Group has undertaken more than 200 successful VR projects serving a broad variety of industry sectors including entertainment, education, tourism, exhibition and display, architecture, design, health care, film and television, and security.

In 2019, 3Glasses Group released the world's first ultra-thin consumer VR glasses, "3Glasses X1", weighing only one-third of comparable products currently on the market. In 2019, 3Glasses X1 was successfully directly connected to ZTE's Axon 10 Pro, which makes X1 the world's first mass-produced ultra-thin VR glasses connected to a 5G mobile phone. Also in 2019, 3Glasses Group launched D4, an improved VR headset based on their D series, with optical upgrades, industrial design and a double-strengthened and longer cable for increased freedom of movement in the VR experience.

On 17 March 2020, 3Glasses Group and China Unicom jointly held an online conference for strategic cooperation. At a press conference entitled "Same Frequency and Joint Resonance", both parties announced that in the course of China Unicom's integration of 5G+VR industry joint resonance solutions, 3Glasses Group became one of the first partners of China Unicom's "terminal + application" and "online + offline" integration to implement cooperation agreements. In addition, the X1S, the 3Glasses Group's brand new addition to the X series of VR glasses made its debut at the press conference.

3Glasses Group was the first official certified partner of the Qualcomm XR SIMPLEVIEW program, and is also working with other famous corporations such as BOE Technology Group Co., Ltd. on the development of ultra-thin VR optical components to move the VR industry forwards. Furthermore, with the laying of 5G networks by telecommunication operators in the PRC, 3Glasses X1 and the new X1S, as carriers of 5G applications tethered to 5G smartphones, will serve as key consumer VR hardware for families and individual users to provide immersive and seamless VR experiences over 5G.

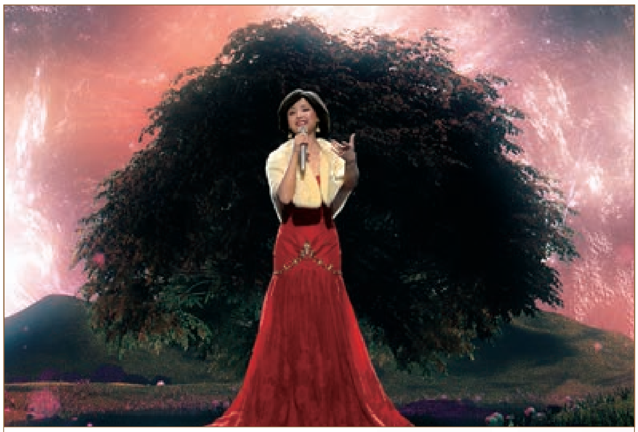
As at 31 December 2020, 3Glasses Group has applied for 404 VR independent core patents. As an innovative technology company, while maintaining its technological leading edge in the area of hardware products such as VR headsets, 3Glasses Group is also actively expanding its solutions services (including VR hardware, VR games and content services and industry applications).

Virtual Human Teresa Teng Business and 虛谷未來科技(北京)有限公司 (“Beijing Xu Gu”)

In order to speed up business development in the field of virtual humans, the Group continues to seek opportunities for financing and collaboration with strategic partners. In January 2019, the Group invited strategic investors to commit funds to specific virtual human business initiatives in the Greater China Region and these companies have been reclassified as associates of the Company since 1 February 2019.

Virtual Human Teresa Teng

In 2014, Digital Domain Media (HK) Limited (DDM), (originally an indirect wholly-owned subsidiary of the Company, now an associate of the Company since 1 February 2019), and TNT Production Limited (TNT) entered into a cooperation framework agreement for the formation of a joint venture company to engage in the production and utilisation of 3D hologram technology relating to the music works of the deceased Taiwanese pop diva, Miss Teresa Teng (“Virtual Human Teresa Teng”). The joint venture company, DD & TT Company Limited (“DDTT”), was formed in 2015. DDTT’s business focuses on the production of a series of Virtual Human Teresa Teng events and activities, targeting audiences in Chinese communities around the world. The latest 3D hologram technology can be widely applied in the entertainment business, including but not limited to concerts, albums, movies and advertisements.



- 2020, **Virtual Human Teresa Teng exhibition and hologram show, at Merlot City Global Centre, Handan:** The setup and rehearsal of the exhibition and hologram show was completed in May 2020, and the show has been running successfully since then with high levels of audience attendance.

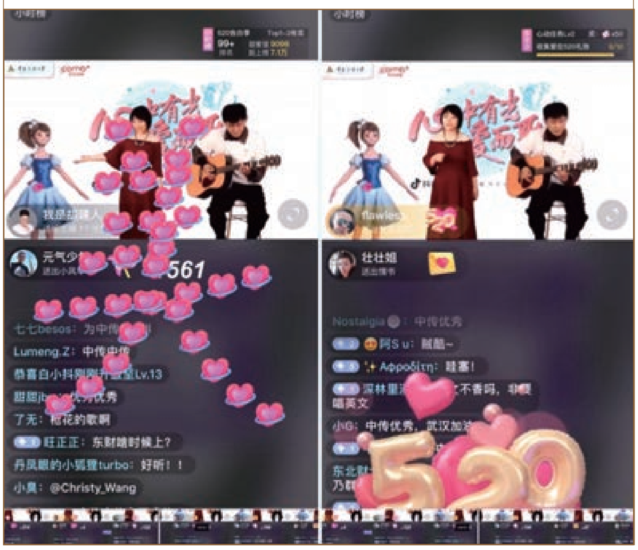
- October 2020, **Virtual Human Teresa Teng show “Looking for Teresa Teng” at Hongyadong, Chongqing:** This holographic mixed reality (MR) interactive music show recreated the elegant charm of Teresa Teng in the form of holographic images, creating an immersive, multi-sensory experience for the audience.

- October 2020, **Virtual Human Teresa Teng show “Teresa Teng · Legend of Fairy Lake” at Fairy Lake Scenic area, Xinyu, Jiangxi:** This holographic MR interactive light and shadow show recreated performances of Teresa Teng’s love songs.

Beijing Xu Gu

In 2019, Beijing Xu Gu was set up as an associate of the Company and operates several virtual human projects within Mainland of China. Using Digital Domain Group's virtual human technology, Beijing Xu Gu continues to innovate and develop virtual IP live broadcasts, content marketing and business development, around the four core strengths of "new technology lightweight operation, multi-form virtual person creation, multi-content development, and multi-scenario business development". Beijing Xu Gu's projects break the barriers between virtual space and the real world, and create a "real person + virtual human" immersive live broadcast experience based on high-precision real-time interaction, and lightweight operation. Beijing Xu Gu brings innovation and new opportunities to the live broadcast industry.

- May 2020, **Virtual Human Alice ("Alice") live broadcast**: Alice participated in the live broadcast of 520 public welfare concerts from the Communication University of China on TikTok as a special guest, where she spoke out for love to a vast number of artistic young people and students.



- June 2020, **Alice's debut**: Alice made her debut as the first virtual human children's reading promoter, the first children's virtual human idol, and the first virtual human children's knowledge sharing officer in Mainland of China.

- June 2020, **Alice x TikTok live tour for the Dragon Boat Festival**: Alice launched the Dragon Boat Festival live tour "Ming Xuan Emperor Playing" on TikTok, creating a series of "Famous Painting Tours" into the micro world, using futuristic technology to lead everyone into the world of traditional culture and art, and live broadcast fragments of famous paintings. The live broadcasts were played across all platforms more than 50,000 times.

- June 2020, **Alice's Taobao Live Channel**: Alice's personal Taobao live broadcast room was opened, and the highest number of views was 1.63 million for parent-child reading, children's books, stationery, and parent-child household consumer goods, which became the benchmark for the virtual anchor of the Taobao live broadcast "novel channel". Since then, Alice has broadcasted more than 130 live broadcasts on Taobao, and has cooperated with brands such as Dangdang, Jieli Publishing House, CITIC Publishing House, and Tmall Supermarket.

- July 2020, **CITIC Art Museum live broadcast**: After her first month, Alice was invited by TikTok to participate in the 270 million blockbuster topic #古都茶話會# live broadcast event. The director of CITIC Art Museum Zeng Zirong joined Alice to conduct a live broadcast of the "Famous Painting Tour", leading thousands of viewers to step into famous ancient paintings such as "Surfing the River at Qingming Festival", "Han Xizai's Night Banquet", and "Ming Xuan Emperor Playing", to appreciate the artistic charm and humanistic value of these ancient paintings in real time.

- July 2020, **Alice x People.cn live**: As a special charity ambassador, Alice participated in People.cn's live broadcast to help farmers in hundreds of cities and counties sell their agricultural products after the epidemic, using her strength and online presence to speak for a charitable cause.

- July 2020, **Alice x BTV live on TikTok**: Alice participated in the live broadcast of Beijing Television's "Classroom in Time and Space" on TikTok. She attended class with the children, and travelled through time and space to speak with the ancients.

- August 2020, **"CCTV Intangible Heritage Master"**: Alice became the "CCTV Intangible Heritage Master" and gave an introduction to Guqin culture via a broadcast on China Central Television (CCTV) Children's Channel (CCTV-14).

- September 2020, **Alice x China Unicom x Apple Watch launch event live**: Alice participated in the live broadcast of China Unicom's x Apple Watch new product release as a special guest. The number of views in the live broadcast room exceeded 2.39 million.

- September 2020, **Beijing SASAC "New Products • New Technologies • New Application Scenarios" promotion meeting**: Alice participated in the meeting, organised by the Beijing State-owned Assets Supervision and Administration Committee (Beijing SASAC), as a special host and held three sessions as the "Capital Agribusiness Product Recommendation Officer". She helped to recommend SanYuan milk powder to the committee as a new product.

- September 2020, **Virtual Human Nonoka ("Nonoka") x Alice x Wong Lo Kat new product live stream:** Nonoka and Alice conducted a special live broadcast to promote Wong Lo Kat's new products. The popularity of the live broadcast room surpassed the brand's previous live broadcasts.

- October 2020, **"Colour of Home" Charity Concert:** as a special ambassador for cultural exchange, Alice attended the "Colour of Home" charity concert in Hong Kong and performed a song called "The Country". With her sweet singing voice and agile figure, she used music to convey the positive energy of patriotism, and prayed for the country and people, winning bursts of applause. In the interactive session, Alice guided the audience into the wonderful world of children's virtual human idols with a wealth of knowledge and experience.

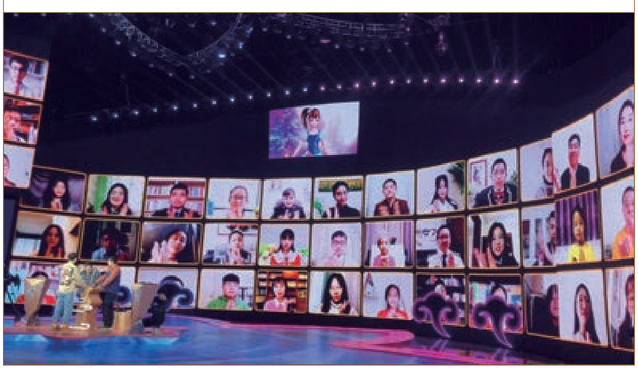
- October 2020, **Launch of "Alice's Questions for Knowledge" short video series:** Alice's original children's fun and popular science series "Alice's Questions for Knowledge" (search for "班長小艾" on WeChat) was officially launched. Every day, there were parent-child topics related to animals, plants, the universe, humanity, the human body, geography, interesting science, and history suitable for parents and children. After the launch of the series, feedback from the market was good, and a large number of fans accumulated quickly. Alice also successfully certified the account "Mother and Child Parenting Blogger".

- November 2020, Alice participated in the **2020 Haidian District Culture and Technology Carnival** at Beijing.

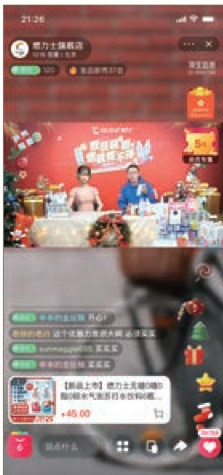
- December 2020, **Golden Gyro Award**: Beijing Xu Gu was awarded the Fifth Golden Top Annual Outstanding Virtual Live Broadcasting Service Provider Award.

- December 2020, **10th QBW2020 Winter Maternal and Child Cross-border Innovation Fair**: Beijing Xu Gu was awarded the Industry Contribution Award at the 10th QBW2020 Winter Maternal and Child Cross-border Innovation Fair ("CCIF"). Alice was named the 10th QBW2020 Winter Maternal and Child Crossover and created the "Good Product of Science and Education" in the CCIF. Alice appeared at the event site as the first virtual host of the QBW Maternal and Child Cross-border Innovation Fair and interacted with the host and guests in real time. Alice's ability to interact with the audience like a real person surprised everyone and opened attendees' eyes to the many possibilities that virtual human technology and artificial intelligence could bring to the industry.

- December 2020, **6th "Chinese Poetry Conference" by CCTV**: Alice participated in the 6th "Chinese Poetry Conference" and served as young officer to ask questions. The program was released on CCTV-1 during the 2021 Spring Festival.



- December 2020, **Nonoka's video channel "Nonoka's Lingerie Life"**: the channel was officially launched with the aim of reaching a female audience, using professional underwear expertise to produce the core content.



- December 2020, **Nonoka x Alice Christmas live broadcast for CELCIUS**: Nonoka and Alice conducted a special Christmas live broadcast for CELSIUS. Compared with CELSIUS' past performance, this livestream generated a staggering rate of growth in both viewing and interaction, which increased by 865% and 163% respectively. This also successfully helped CELSIUS obtain a sustained increase of 83% in customer engagement.

- December 2020, **Virtual Human Lydia ("Lydia") produced the ACGN song and dance content for social media platforms**: Lydia entered (a) TikTok as the "Twilight Girl" in October 2020, (b) WeChat Channel in November 2020, and (c) "Barta" on the iQiyi animation platform for performances related to anime, comics, games and novels (ACGN).

Digital Domain Space (VR Theatre and DD Land)

In September 2017, Digital Domain established 數字王國空間(北京)傳媒科技有限公司 **(Digital Domain Space)** with several strategic partners.

Digital Domain Space's aim is to develop and execute an innovative VR experience with new VR theatres in China. Highlighting the interactive and entertaining nature of VR content, Digital Domain Space's VR theatres have already been installed inside a number of shopping malls, including locations in Guangzhou, Chongqing and Fushun. Compared to existing domestic VR technologies, Digital Domain Space presents consumers with elevated VR content and total immersion in VR experiences. Leveraging the influence and scale of its brand, store locations and consumer volume, Digital Domain Space offers enhanced product and advertising placement to provide additional and diversified business opportunities. The share of losses from this associate amounted to approximately HK$8,440,000 (2019: HK$13,943,000).

Since the early control of the COVID-19 pandemic in Mainland of China, a decrease in global travel has prompted Chinese consumers to repatriate their purchases and travels nationally. This has been particularly evident in the tourism boom in Hainan Province that has been driven by attractive offshore duty-free shopping policy changes in 2020, part of the government's plan to keep Chinese consumption within Mainland of China. To grasp the opportunity and meet the increasingly diversified needs of consumers, especially those of Gen Z, in digital content experiences, Digital Domain Space and Zhongdi Jiye Hainan Investment Co., Ltd. jointly built **"DD Land" (known as the "Cyberpunk Digital Theme Park")** which officially launched on 24 December 2020 in **Friend Sunny City Shopping Centre in downtown Haikou, Hainan Province**. Using cutting-edge digital imaging technologies such as VR and holographic projections, the Park provides its customers with digital entertainment services such as holographic theatre, VR cinema, MR Future Arena, Immersive Oasis and Cyber Street, with premises of 4,800 square meters.

The Cyberpunk Digital Theme Park locates in Friend Sunny City Shopping Centre in Haikou, including Cyber Square and VR theatres, provides its customers with stunning digital entertainment experiences.

GOODWILL AND INTANGIBLE ASSETS OF THE GROUP

As at 31 December 2020, the Group had intangible assets of approximately HK$737,030,000 (being approximately 49% of the Group's total assets as at the same date). Such intangible assets comprised goodwill of approximately HK$310,047,000 that has been allocated to three cash generating units (or "CGUs") of our media entertainment segment, namely the CGUs for (i) visual effects production ("VE CGU"), (ii) post-production ("PP CGU"); and (iii) 360 degree digital capture technology applications ("360 CGU"), respectively; and trademarks of approximately HK$155,270,000 allocated to the Group's VE CGU and 360 CGU.

For the purposes of impairment testing, the recoverable amounts of the CGUs have been determined by the Directors on the basis of value-in-use calculations with reference to professional valuation reports issued by Knight Frank Asset Appraisal Limited, an independent firm of professional qualified valuers. The recoverable amount of each CGU, the period of cashflow projections, the key assumptions used for the value-in-use calculations (including the average growth rate and pre-tax discount rate) for each CGU as at 31 December 2020 are set out in Note 15 to this report.

The pre-tax discount rate, corporate income tax rate, post-tax weighted average cost of capital, market rate of return and levered equity beta and terminal rates adopted in the valuations as at 31 December 2020 were determined on a basis consistent with that which was applied in the value-in-use calculations of the same CGUs as at 31 December 2019, with the absolute values of each rate varying by reference to the market data of the jurisdiction(s) in which the relevant CGU operates.

Except for the 360 CGU, the average growth rate of each CGU was determined based on the projected revenue for the financial year ending 31 December 2021 that the Company expects to be derived from (i) projected work supported by signed contracts ("Committed Work"), (ii) budgeted engagements based on prospective identified projects and subject to negotiations (discounted for likelihood of success ("Success Discount"), based on management assessment by reference to historical success rate as well relationships with the counterparty) ("Likely Work") and (iii) other projects that are not under negotiation at the time of forecast but may become available during the year, based on the prior year's operating experience ("Possible Work"), while cost projections were based largely on historical rates with adjustment for inflation. This approach is consistent with that adopted in prior years.

The Company, having taken into account prevailing market competition and uncertainties in Asia, North America and Europe, was more conservative in preparing the CGU projections such as using a higher Success Discount and lowering projection of cash inflow from Likely Work and Possible Work compared to last year.

Unlike contracts in other CGUs, contracts in the 360 CGU are generally characterised by short period of time between contract date and delivery of projects. Further, the prospects of growth in this CGU is highly dependent on the revival of demand for 360 digital capture and live streaming services from the travel, sports, concerts and other mass events sectors that have significantly been impacted by social distancing requirements and travel restriction measures in most territories. The growth rate(s) adopted for this CGU is/are based on historical growth rate, referenced against industry average(s) obtained from market research.

The Group's revenues are generally project based and the projects are often the subject of competitive tender, so it is not possible to make predictions with certainty. Shareholders should note that in addition to the goodwill and intangible assets of the Group that are subject to impairment review or are amortised over the years, certain research and development costs of technology being developed in-house are also expensed and charged to the income statement in the year of incurrence (instead of being capitalised) contributing to the Group's losses in the media entertainment segment over the years.

VE CGU

As at 31 December 2020, the goodwill allocated to the VE CGU was approximately HK$208,691,000 (2019: HK$208,863,000) with headroom of approximately HK$168,196,000 (2019: HK$161,133,000) based on the value-in-use ascribed to this CGU. Key assumptions for the value-in-use calculations for this CGU included an average growth rate within the 5 years budget period of 19.3% (2019: 19.4%) and a pre-tax discount rate of 17.6% (2019: 17.0%). Based on a sensitivity analysis carried out by the independent valuer, the headroom attributable to the VE CGU would adequately cover a +/-0.5% change in the weighted average cost of capital and a +/- 0.5% change on the terminal growth rate. As the average growth rate is (as explained above) based on reasonable projections by management with reference to information currently available to them, any material changes in this CGU's market or operating environment that reduce its cash inflow or gross profit margin could have an adverse impact on the recoverable amount of this CGU.

Please see the sections titled "Visual Effects Production and Post-Production Business – Digital Domain North America (USA and Canada)" and "Prospect" for a further discussion of the projects and prospects for this CGU.

PP CGU

As at 31 December 2020, the goodwill allocated to the PP CGU was approximately HK$85,186,000 (2019: HK$85,186,000) with headroom of approximately HK$15,325,000 (2019: Nil) based on the value-in-use ascribed to this CGU. An impairment loss of approximately HK$17,201,000 was made against this CGU as at 31 December 2019. Key assumptions for the value-in-use calculations for this CGU included an average growth rate within the 5 years budget period of 22.2% (2019: 30.1%) and a pre-tax discount rate of 20.6% (2019: 20.5%). Based on a sensitivity analysis carried out by the independent valuer, the headroom attributable to the VE CGU would adequately cover a +/-0.5% change in the weighted average cost of capital and a +/- 0.5% change on the terminal growth rate. As the average growth rate is (as explained above) based on reasonable projections by management with reference to information currently available to them, any material changes in this CGU's market or operating environment that reduce its cash inflow or gross profit margin could have an adverse impact on the recoverable amount of this CGU.

Please see the sections titled "Visual Effects Production and Post-Production Business – Digital Domain China" and "Prospect" for a further discussion of the projects and prospects for this CGU.

360 CGU

As at 31 December 2020, the goodwill allocated to the 360 CGU was approximately HK$16,170,000 (2019: HK$321,291,000) based on the value-in-use ascribed to this CGU, as a result of which an impairment loss of approximately HK$305,119,000 (2019: HK$57,218,000) was made against this CGU as at 31 December 2020. Key assumptions for the value-in-use calculations for this CGU included an average growth rate within the 5 years (2019: 7 years) budget period of 22.5% (2019: 31.5%) and a pre-tax discount rate of 18% (2019: 17.8%). The lower valuation of this CGU is mainly due to (i) the low revenue generated in the financial year ended 31 December 2020 that formed the basis of projection; (ii) a more conservative revenue growth (which resulted in the lower average growth rate) projected in the budget period due to lower average historical growth rate for the preceding three financial years and the uncertainties, in particular for 2021 and the years following, on when mass participation events (such as travel, sports events, concerts) served by the 360 CGU would meaningfully resume in that CGU's markets in Asia, US and Europe to generate sustainable demand for services 360 CGU, while the Group explores the business opportunities in non-media entertainment market (such as the education related market) for this CGU, as part of our VR offerings in the form of "360 degree type", "CG type" and "hardware type" products.

Please see the sections titled "Virtual Reality/Augmented Reality, New Media and Experiential" and "Prospect" for a further discussion of the projects and prospects for this CGU.

EVENTS AFTER THE REPORTING PERIOD

Subscription of New Shares under General Mandate

On 11 December 2020, the Company entered into a subscription agreement with HLEE Finance S.à r.l. (the "Subscriber") of Mr. Clive NG Cheang Neng ("Mr. NG") in relation to the subscription. Pursuant to the subscription agreement, the Company conditionally agreed to allot and issue 6,814,760,000 shares to the Subscriber at the subscription price of HK$0.05 per subscription share (the "Subscription"). The Subscription was completed on 18 January, 2021 and the Subscription shares were allotted and issued pursuant to the general mandate of the Company. The Subscription shares represent approximately 20% of the issued share capital of the Company of 34,073,816,258 shares as at the date of announcement of the Subscription and approximately 16.67% of the issued share capital of the Company of 40,888,576,258 shares as enlarged by the Subscription.

The gross proceeds and net proceeds from the Subscription are approximately HK$340,738,000 and HK$340,538,000 respectively, and are intended to be applied towards the formation of the joint venture company, media entertainment segment and general working capital of the Group. For details, please refer to the Company's announcements dated 11 December 2020, 27 December 2020 and 18 January 2021.

Formation of a joint venture company and investment(s) in Europe

- **Formation of DDCP**

  The Company's indirectly wholly-owned subsidiary, Digital Domain Broadcasting (Hong Kong) Limited ("DDBL"), has formed Digital Domain Capital Partners S.à r.l. ("DDCP"), a company incorporated in the Grand Duchy of Luxembourg on 18 January 2021 with a joint venture partner, a wholly-owned company, Digital Knight Finance S.à r.l. ("DKF"), of Mr. NG, pursuant to the agreement that was the subject of the Company's announcements dated 11 December 2020 and 27 December 2020. DDCP is an indirect non-wholly owned subsidiary (60% owned) of the Company.

  Pursuant to the JV formation agreement, the Company (through DDBL) and the Subscriber (through DKF) subscribed for shares in DDCP and holds 60% and 40% interests in DDCP, respectively in consideration of the subscription price of approximately HK$187,800,000 (equivalent to EUR20,000,000) and approximately HK$125,200,000 (equivalent to EUR13,333,333) in cash.

- **Investment in asknet**

  On 3 February 2021, DDCP as the purchaser entered into a sale and purchase agreement with a seller pursuant to which DDCP agreed to purchase and the seller agreed to sell 248,431 common shares of asknet Solutions AG, a publicly traded German ecommerce company, the shares of which are traded on the Frankfurt Stock Exchange (ticker code: ASKN) ("Target Company") for an aggregate consideration of EUR3,709,075 (approximately HK$34,976,576), i.e. amounting to approximately EUR14.93 (approximately HK$140.79) per sale share. The sales shares represented approximately 19% of the total issued common shares of the Target Company on 3 February 2021.

  Founded in 1995, the Target Company is an established procurement, e-commerce and payment specialist with a strong position in the German-speaking academic market providing access to software solutions and IT services with a focus on academic and educational sectors. Areas of collaboration between the Group and the Target Company under consideration include the deployment of the Group's virtual human technology in the form of a virtual teaching assistant for the education and lifelong learning sectors in the European market, the development of learning solutions that leverage mixed reality content and the distribution of the Group's software and hardware products to the education market in Europe. Considering the COVID-19 pandemic situation, the Group expects that the demand in education technology services is likely to increase. For details, please refer to the Company's announcements dated 3 February, 2021.

- **Investment in HLEE**

  On 26 February 2021, DDCP as the purchaser entered into a sale and purchase agreement with a seller pursuant to which DDCP agreed to purchase and the seller agreed to sell 260,000 common shares of Highlight Event and Entertainment AG, a publicly traded Swiss media and sports marketing company, the shares of which are traded on the Swiss Stock Exchange (ticker code: HLEE.SW) ("HLEE") for an aggregate consideration of EUR7,064,447.52 (approximately HK$66,617,740), i.e. amounting to approximately EUR27.17 (approximately HK$256.22) per sale share. The sales shares represent approximately 2.91% of the total issued common shares of the HLEE on 26 February 2021. HLEE carries its business in segments of film, sport- and event-marketing and sport events through its subsidiaries and affiliates in Europe.

CAPITAL

Shares

On 11 December 2020, the Company entered into a subscription agreement with the Subscriber in relation to the Subscription. For details, please refer to the above section named "Events after the Reporting Period", and the Company's announcements dated 11 December 2020, 27 December 2020 and 18 January 2021.

As at 31 December 2020, the total number of the Company shares of HK$0.01 each in issue (the "Shares") was 34,075,516,258 Shares. Upon the completion of the Subscription (mentioned above) on 18 January 2021, the total number of Shares in issue was 40,890,276,258 Shares.

Share Options

On 28 May 2014, a total of 980,060,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 980,060,000 new Shares at an exercise price of HK$0.098 per Share. For details, please refer to the Company's announcements dated 28 May 2014 and 23 July 2014, and the circular dated 2 July 2014. During the year under review, no share options were exercised, cancelled or have lapsed. 46,570,000 share options were exercised and 140,760,000 share options were cancelled or have lapsed since the grant-date (28 May 2014).

On 6 May 2015, a total of 78,000,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 78,000,000 new Shares at an exercise price of HK$1.32 per Share. For details, please refer to the Company's announcement dated 6 May 2015. During the year under review, no share options were exercised, cancelled or have lapsed. 10,000 share options were exercised and 3,000,000 share options were cancelled or have lapsed since the grant-date (6 May 2015).

On 29 January 2016, a total of 379,500,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 379,500,000 new Shares at an exercise price of HK$0.413 per Share. For details, please refer to the Company's announcements dated 29 January 2016 and 7 June 2016, and the circular dated 30 April 2016. During the year under review, no share options were exercised, cancelled or have lapsed. No share options were exercised and 25,666,665 share options were cancelled or have lapsed since the grant-date (29 January 2016).

On 22 June 2016, a total of 100,000,000 share options were granted under the Company's share option scheme to a grantee. The share options entitle the grantee to subscribe for up to a total of 100,000,000 new Shares at an exercise price of HK$0.495 per Share. For details, please refer to the Company's announcement dated 22 June 2016. During the year under review and since the grant-date (22 June 2016), no share options were exercised, cancelled or have lapsed.

On 29 July 2016, a total of 50,000,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 50,000,000 new Shares at an exercise price of HK$0.566 per Share. For details, please refer to the Company's announcement dated 29 July 2016. During the year under review, no share options were exercised, cancelled or have lapsed. No share options were exercised and 13,199,986 share options were cancelled or have lapsed since the grant-date (29 July 2016).

On 13 February 2017, a total of 300,000,000 share options were granted under the Company's share option scheme to a grantee. The share options entitle the grantee to subscribe for up to a total of 300,000,000 new Shares at an exercise price of HK$0.469 per Share. For details, please refer to the Company's announcements dated 13 February 2017 and 1 June 2017, and the circular dated 27 April 2017. During the year under review and since the grant-date (13 February 2017), no share options were exercised, cancelled or have lapsed.

On 24 April 2019, a total of 130,000,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 130,000,000 new Shares at an exercise price of HK$0.130 per Share. For details, please refer to the Company's announcement dated 24 April 2019. During the year under review and since the grant-date (24 April 2019), no share options were exercised, cancelled or have lapsed.

On 21 May 2020, a total of 478,000,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 478,000,000 new Shares at an exercise price of HK$0.046 per Share. For details, please refer to the Company's announcement dated 21 May 2020. During the year under review, 1,700,000 share options were exercised and no share options were cancelled or have lapsed.

USE OF PROCEEDS FOR EQUITY FUNDRAISING ACTIVITIES

Date of announcement	Fundraising activity	Net proceeds raised	Proposed use of proceeds	Actual use of the net proceeds up to 31 December 2020
3 July 2019, 18 July 2019 and 25 July 2019	Placing of an aggregate of 2,000,000,000 Shares	Approximately HK$205,730,000	(1) Media entertainment segment (2) General working capital for the Group	(1) Media entertainment segment: approximately HK$123,849,000; (2) General working capital (including but not limited to salary and rental): approximately HK$81,881,000
11 December 2020, 27 December 2020 and 18 January 2021	Issue of 6,814,760,000 Shares	Approximately HK$340,538,000	(1) Formation of joint venture company (2) Media entertainment segment (3) General working capital for the Group	Not applicable – subscription completed on 18 January 2021 (Note: As at the date of this report, HK$187,000,000 has been applied towards formation of joint venture as planned, and the balance is expected to be utilised by 31 December 2021 as follows: - (1) Media entertainment segment: approximately HK$92,220,000; and (2) General working capital (including but not limited to salary and rental): approximately HK$61,318,000)

LIQUIDITY, FINANCIAL RESOURCES, CHARGES ON GROUP ASSETS AND GEARING RATIO

The Group has diverse sources of financing, including internal funds generated from the Group's business operations, general banking facilities on a secured basis or an unsecured basis, non-bank loans on a secured or an unsecured basis and non-regular contributions (such as placement of shares, issuance of convertible notes or financing through shareholder loans) from shareholders and other potential investors. The Group continues to adopt conservative funding and treasury policies.

In 2020, the Company had banking facilities from two banks in the United States amounting to US$11,000,000 (approximately HK$85,282,000). These banking facilities were secured by time deposits of the Group. The Group had banking facilities from a bank in Canada in amount of CAD5,924,000 (approximately HK$36,063,000) and the utilised portion of these banking facilities were CAD5,779,000 (approximately HK$35,181,000). These banking facilities were secured by corporate guarantees provided by several subsidiaries.

During the year under review, certain loans granted under emergencies loan schemes for COVID-19 are in amount of US$1,064,000 (approximately HK$8,251,000) and CAD40,000 (approximately HK$244,000). These loans are unsecured and not repayable within 12 months from 31 December 2020.

As at 31 December 2019, bank loan with principal amount of RMB11,620,000 (equivalent to HK$13,001,000) is guaranteed by facilities from another subsidiary and secured by bank deposit. Another bank loan with principal amount of RMB5,650,000 (equivalent to HK$6,321,000) was secured by bank deposits. The loans were settled during the year.

In addition to the banking facilities mentioned above, an indirectly-owned subsidiary of the Group in the entertainment media segment, which was discontinued at the end of December 2010, obtained a banking facility amounting to HK$6,000,000 from a bank in Hong Kong in 2009 which consisted of a 5-year instalment loan ("Five Year Loan"). This facility was granted under the Special Loan Guarantee Scheme of the Government of the Hong Kong Special Administrative Region (the "Government"), pursuant to which the Government provided an 80% guarantee to the bank. A corporate guarantee was provided to the bank by an intermediate subsidiary of the Company which held the aforesaid indirectly-owned subsidiary. On 20 December 2010, the Company announced that it would not provide further financial assistance to the entertainment media segment. As a result, the operation of the aforesaid subsidiary has been discontinued since the end of December 2010. The Five Year Loan has been fully classified as a current liability.

As at 31 December 2020, the Group also had lease liabilities of HK$114,588,000, which were determined at the present value of the lease payments that are payable at that date. Apart from lease payments related to office premises and certain office equipment, the Group had lease liabilities of RMB422,000 (approximately HK$501,000) and CAD493,000 (approximately HK$3,003,000) related to computer equipment and software (leased assets) secured by the lessor's charge over the leased assets. Among these leased assets, the terms of payments were 34 months and 42 months respectively. Payments were on a fixed payment basis and the underlying interest rates were fixed at respective contract dates. No arrangements were entered into for contingent rental payments.

The Group had other loans of approximately HK$162,729,000 as at 31 December 2020. One indirect wholly-owned subsidiary has a loan in amount of US$3,500,000 (approximately HK$27,065,000), which is unsecured, interest-free and is not repayable within 13 months from 31 December 2020. The Company and its indirect wholly-owned subsidiary had other loans in amount of HK$10,020,000 and US$429,000 (approximately HK$3,326,000) respectively. These other loans are unsecured, with a fixed interest rate and repayable within 12 months from 31 December 2020. One indirect wholly-owned subsidiary also had a term loan facility of US$10,000,000 (approximately HK$77,528,000) and HK$80,000,000, with a guarantee provided by the Company. The subsidiary drew down the facility in 2015 and 2018. The outstanding balance of these loans as at 31 December 2020 were US$8,000,000 (approximately HK$62,022,000) and HK$34,290,000. These loans are unsecured, with a floating interest rate (prime rate quoted by a bank in Hong Kong) and are not repayable within 13 months from 31 December 2020. There is an other loan in amount of US$3,354,000 (approximately HK$26,006,000) provided in relation to the production of a film with interest-bearing and secured by security interest in all right, title and interest in a film investment. During the year under review, the Company repaid an other loan in amount of HK$10,000,000. As at 31 December 2019, there were other loans with aggregated principal in amount of RMB20,000,000 (approximately HK$22,376,000), from a non-controlling shareholder of the 3Glasses Group. This other loan was derecognised upon disposal of subsidiaries during the year under review.

The total cash and bank balance as at 31 December 2020 was approximately HK$113,899,000. As at 31 December 2020, the Group had banking facilities of approximately HK$129,840,000. Utilised portions of these bank facilities were set at a floating interest rate. Of these bank loans, loans amounting to approximately HK$93,532,000 are denominated in United States dollars and loans amounting to approximately HK$35,425,000 are denominated in Canadian dollars. During the year under review, all of the Group's bank loans were classified as either current liabilities and repayable on demand or non-current liabilities according to the agreed scheduled repayment dates. According to the agreed scheduled repayment dates, the maturity profile of the Group's bank borrowings as at 31 December 2020 was spread over a period of five years, with approximately 86% repayable within one year, 11% repayable between one to two years and 3% repayable between two and five years.

The Group's current assets were approximately HK$286,358,000 while the current liabilities were approximately HK$418,352,000 as at 31 December 2020. As at 31 December 2020, the Group's current ratio was 0.7 (as at 31 December 2019: 1.8).

As at 31 December 2020, the Group's gearing ratio, representing the Group's financial liabilities (i.e. bank loans, other loans and lease liabilities) divided by the equity attributable to owners of the Company was 49% (as at 31 December 2019: 31%)

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The Group's revenue, expenses, assets and liabilities were mainly denominated in Hong Kong dollars ("HKD"), United States dollars ("USD"), Canadian dollars ("CAD"), Renminbi ("RMB") and Indian Rupees ("INR"). The exchange rates for the USD against the HKD remained relatively stable during the year under review. As some of the financial statements for the business operations in North America, Mainland of China and India were reported in CAD, RMB and INR, respectively, if the CAD or RMB or INR were to depreciate relative to the HKD, the reported earnings/expenses for the Canadian portion, Mainland of China portion or Indian portion would decrease.

At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations involving RMB, CAD and/or INR. However, the Group will constantly review the economic situation, the development of each business segment and the overall foreign exchange risk profile, and will consider appropriate hedging measures in future when necessary.

CONTINGENT LIABILITIES

Save as disclosed under "Possible Indemnification" of the Media Entertainment Segment above, as at 31 December 2020, the Group did not have any material contingent liabilities.

EMPLOYEES OF THE GROUP AND REMUNERATION POLICY

As at 31 December 2020, the total headcount of the Group was 1,090. The Group believes that its employees play an important role in its success. Under the Group's remuneration policy, employee pay rates are maintained at competitive levels whilst promotion and salary increments are assessed on a performance-related basis. Other benefits include discretionary bonuses, a share option scheme and retirement schemes.

PROSPECT

The global economy has been adversely affected by the outbreak of COVID-19 and associated government epidemic prevention and control measures in 2020 and we can see that 2021 will continue to be an extremely challenging year for a lot of businesses, including our media entertainment business. Given that the overall situation remains unstable and further impact may be reflected in the first half of 2021, we are adopting a prudent approach in our business strategies (including for example, cost control, business direction and production mix).

The Group continues to leverage its extensive experience in the VFX industry and proactively seeks new projects and business opportunities despite the highly competitive market environment in the US and China. However, government measures and public response to the outbreak of COVID-19 worldwide has had an impact on business activities (VFX work for feature films) in terms of extensions or delays in production schedules and new projects becoming available as the industry monitors the development of government directions and policies and their potential impact, while there were increased opportunities/quantities for providing VFX work for other type of products (e.g. online games, episodes and commercials). While we have noted more business opportunities in the US, China and Europe following the gradual resumption of commercial work, it is more challenging to predict trends in different segments given that the development of the pandemic in different countries remains unstable. With the official opening of our new studio in Montreal, Quebec, Canada in February 2020, we enjoy additional production capacity with tax and other benefits provided by the Quebec provincial/Canadian federal governments. The Group will continue to evaluate the cost structure, function and operation performance of each studio in North America and Asia to enhance the effectiveness and efficiency of our working capacity while reducing production costs in the long run.

The business activities of our VR business have experienced material slowdown in 2020 given the reduced expansion in Mainland of China, North America and other parts of the world which we believe has led to the reduction in the number or size of projects and/or the investment budgets. Although the 360 degree digital capture and livestreaming business had mainly served the sports, travel, concerts and mass public social events sectors that have additionally been affected by the COVID-19 pandemic related social distancing and travel restrictions measures, which may continue well into 2021, we are working towards expanding the non-media entertainment applications of the technology, for example, for the education related market and expand our offerings of "360 degree type", "CG type" and "hardware type" products. In this regard, we are discussing with clients and investors who still have confidence in our VR business models and hardware products on business opportunities in both our traditional markets as well as the European market. The Group will further review the overall strategy (investment direction, product mix, distribution channels, etc.) of our VR business. However, the impact for financial year 2021 remains to be seen given that the overall situation remains in flux.

We will continue to explore new virtual human business opportunities and products (such as artificial intelligence (AI)) with strategic business partners and/or investors. We will continue to develop new technologies which will enhance the interactivity between virtual humans and the audience in social-networking platforms, entertainment businesses and in other environments such as education.

Alongside most advanced technology companies, we will continue to deploy substantial financial and human resources in continuing research and development in new technologies, and will seek to recruit and retain appropriate global talent to support the Group's future development. In line with our strategy to optimise our production capacity and costs, we will also explore appropriate strategically located properties for both operations and investment purposes. We will continue to seek opportunities for financing and collaboration with strategic partners/investors on the Group level or business project/subsidiary level. We believe that continuing efforts in these directions will help us enhance our business ecosystems and other capabilities.

Looking ahead, although there are uncertainties caused by the COVID-19 pandemic, Digital Domain turned a new page in early 2021 by stepping into the European market in cooperation with strategic partners with European business backgrounds and resources.

Last but not least, we will continue to build on our strengths and strive to provide quality services and products to our valued clients, especially during this challenging year, while we work towards maximising benefits for our important stakeholders (strategic partners, shareholders, staff and management) in the coming years.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance standard and practices with an emphasis on integrity, transparency and independence. The board of directors of the Company (the "Directors" and the "Board" respectively) believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

During the financial year of 2020, the Company was in compliance with the Code Provisions set out in the CG Code except for the following:

There is no separation of the roles of the chairman and the chief executive officer or chief executive during the period from 4 June 2020 to 31 December 2020. Mr. Seah Ang, the executive Director and chief executive officer of the Company, was appointed as the acting chairman of the Board following the resignation of Mr. Peter Chou as the chairman of the Board and the executive Director. The Board believed that at the time of vesting of the roles of chairman and chief executive officer in Mr. Seah Ang is beneficial to the operation and management of the Group due to his in-depth knowledge in the Group's operation and his extensive business network and connections. The Company would seek the suitable candidate to fill the vacancy of the position of the chairman of the Board;

During the year, the Company held two regular board meetings instead of at least four regular board meetings as required. In addition to two regular board meetings, there were six Board meetings held for addressing ad hoc issues. The Company also sought for the Board's approval on the issues by circulating the written resolutions. The Board considered that sufficient meetings had been held during the year and business operation and development of the Group had been communicated on the Board;

The Chairman of the Board is not subject to retirement by rotation pursuant to bye-law 87(1) of the Company's bye-laws (the "Bye-laws"). Mr. Seah Ang was appointed as acting chairman of the Board on 4 June 2020 but he has retired by rotation and was re-elected as executive Director at the annual general meeting of the Company on 5 June 2020. Mr. Seah Ang has entered into a service agreement for no fixed term but his appointment is terminable by either party by giving three months' prior notice;

The non-executive Directors and independent non-executive Directors were not appointed for a specific term. However, they are subject to retirement and eligible for re-election at the general meeting pursuant to the Bye-laws and the CG Code. The service contracts of all the non-executive Directors and independent non-executive Directors have a termination notice requirement of at least one month; and

Due to other pre-arranged business commitments which must be attended to by Mr. Jiang Yingchun and Mr. Wang Wei-Chung, the non-executive Directors, they were not present at the annual general meeting of the Company held on 5 June 2020.

The Company periodically reviews its corporate governance practices to ensure they continue to meet the requirements of the CG Code. The key corporate governance principles and practices of the Company are summarised in this report.

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions.

To the specific enquiry by the Company, all Directors have confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2020.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining and reviewing the effectiveness of the risk management and internal control systems of the Group. It has carried out an annual review of the existing implemented systems and procedures, including control measures of financial, operational and compliance and risk management functions of the Group. Since the Group's corporate and operation structure is simple for diverting resources to establish a separate internal audit department, during the year, the Company engaged external independent consultants to assess the design, implementation and monitoring of the risk management and internal control systems of the Company and Digital Domain Resources Limited, a wholly-owned subsidiary of the Company and principally engaged in the provision of human resources and administrative services for the Group. Based on the assessment, weakness and potential risks on internal control and risk management procedures have been identified in certain areas including fixed assets management, finance and accounting cycle, payroll and human resources. The Board has also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting function and considered they are adequate. The Board were not aware of any material internal control defects, and considered such systems effective and adequate.

THE BOARD

Responsibilities

The Board is responsible for overseeing the overall development of the Company's businesses with the objective of enhancing shareholders' value including setting and approving the Company's strategic implementation, considering substantial investments, reviewing the Group's financial performance half-yearly and developing and reviewing the Group's policies and practices on corporate governance while delegating the day-to-day operations of the Company to the executive Directors or the management of every business segment. The Board is committed to making decisions in the best interests of both the Company and its shareholders ("Shareholders").

The Board acknowledges its responsibility for preparing the consolidated financial statements of the Company and the Group which give a true and fair view of the Group's affairs in accordance with statutory requirements and applicable accounting standards. The statement by the independent auditor of the Company about its reporting responsibilities for the consolidated financial statements of the Company is set out on pages 73 to 76 in the independent auditor's report.

All Directors have full and timely access to all relevant information as well as the advice and service of the company secretary of the Company ("Company Secretary") to ensure Board procedures and all applicable rules and regulations are followed.

THE BOARD (CONTINUED)

Composition

The Board has in its composition a balance of skills, experience and diversity of perspectives necessary for independent decision making and fulfilling its business needs.

The Board currently comprised nine members, including one executive Director, four non-executive Directors and four independent non-executive Directors, as follows:

Executive Director

Mr. SEAH Ang *(Acting Chairman and Chief Executive Officer ("CEO"))*
(appointed as acting chairman of the Board on 4 June 2020)

Non-executive Directors

Mr. JIANG Yingchun
Mr. CUI Hao
Mr. WANG Wei-Chung
Mr. Sergei SKATERSHCHIKOV *(appointed as non-executive Director on 22 January 2021)*

Independent Non-executive Directors

Mr. DUAN Xiongfei
Ms. LAU Cheong
Mr. WONG Ka Kong Adam
Dr. Elizabeth Monk DALEY *(appointed as independent non-executive Director on 20 July 2020)*

Biographical details of the current Directors are set out in the directors' report on pages 55 to 57. Save as disclosed in the aforesaid biographical details of the Directors, none of the Directors has any financial, business, family or other material/relevant relationships between the Board members.

During the year ended 31 December 2020, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise, and the independent non-executive directors represented at least one-third of the board.

In accordance with the code provision A.4.3 of the CG Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules, Mr. Duan Xiongfei has served as an independent non-executive Director for more than 9 years and his further appointment will be subject to a separate resolution to be approved by Shareholders at the forthcoming annual general meeting of the Company. As an independent non-executive Director, Mr. Duan Xiongfei did not participate in the day-to-day management of the Company. However, he has developed an in-depth understanding of the business of the Company and remains in a position to provide an independent view and guidance to the Company over the years.

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors (including Mr. Duan Xiongfei who has served as an independent non-executive Director for more than 9 years and is eligible for re-election at the forthcoming annual general meeting of the Company) to be independent in accordance with the independence guidelines set out in the Listing Rules.

THE BOARD (CONTINUED)

Composition (continued)

The Bye-laws require that one-third (if the number is not a multiple of three, the number nearest to but not less than one-third) of the Directors (including executive and non-executive Directors) shall retire by rotation at each annual general meeting. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election and those of the other Directors who have been longest in office since their last re-election or appointment. A retiring Director is eligible for re-election. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office until the next following annual general meeting and be eligible for re-election. Any Director appointed pursuant to the aforesaid Bye-law shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

Board Meetings and General Meetings

During the year ended 31 December 2020, eight Board meetings and the annual general meeting of the Company for the year 2020 ("AGM") were held with details of the Directors' attendance set out below:

	Attendance/Number of Meetings	
Directors	**Board Meetings**	**AGM**
Executive Directors		
Mr. SEAH Ang *(Acting Chairman and CEO)* *(appointed as acting chairman of the Board on 4 June 2020)*	8/8	1/1
Mr. Peter CHOU *(Chairman)* *(resigned as chairman of the Board and executive Director on 4 June 2020)*	2/4	N/A
Non-executive Directors		
Mr. JIANG Yingchun	2/8	0/1
Mr. CUI Hao	6/8	1/1
Mr. WANG Wei-Chung	7/8	0/1
Independent Non-executive Directors		
Mr. DUAN Xiongfei	8/8	1/1
Ms. LAU Cheong	8/8	1/1
Mr. WONG Ka Kong Adam	6/8	1/1
Dr. Elizabeth Monk DALEY *(appointed as independent non-executive Director on 20 July 2020)*	3/3	N/A
Mr. John Alexander LAGERLING *(resigned as independent non-executive Director on 1 May 2020)*	0/2	N/A

THE BOARD (CONTINUED)

Directors' Training

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide a comprehensive induction package covering the summary of the responsibilities and liabilities of a director of a Hong Kong listed company, the Company's constitutional documents and the Guide on Directors' Duties issued by the Companies Registry in Hong Kong to each newly appointed Director to ensure that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and other regulatory requirements.

The Company Secretary reports from time to time the latest changes and development of the Listing Rules, corporate governance practices, business ethics and anti-corruption aspects and other regulatory regime to the Directors with written materials.

During the year of 2020, all Directors were provided with reading materials on the relevant rules and regulating updates.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

There is no separation of the roles of the chairman and the chief executive officer or chief executive during the period from 4 June 2020 to 31 December 2020. Mr. Seah Ang, the executive Director and CEO, was appointed as the acting chairman of the Board following the resignation of Mr. Peter Chou as the chairman of the Board and the executive Director. The Board believed that at the time of vesting of the roles of chairman and CEO in Mr. Seah Ang is beneficial to the operation and management of the Group due to his in-depth knowledge in the Group's operation and his extensive business network and connections. The Company would seek the suitable candidate to fill the vacancy of the position of the chairman of the Board.

DELEGATION BY THE BOARD

The Directors are aware of their collective and individual responsibilities to the Shareholders for the well-being and success of the Company.

To enhance the effectiveness of the management of the Company, the Board has established four committees, namely, the Executive Committee, the Audit Committee, the Nomination Committee and the Remuneration Committee to oversee corresponding aspects of the Company's affairs. All Board committees of the Company have defined written terms of reference.

BOARD COMMITTEES

Executive Committee

The Executive Committee currently comprises the executive Director and the management and it assists the Board in discharging its duties and dealing with routine business of the Company and enhances the effectiveness and efficiency of day-to-day operation of the Company. There is no minimum meeting requirement and this Committee shall meet as and when necessary for proper discharge of its duties.

BOARD COMMITTEES (CONTINUED)

Audit Committee

The Audit Committee currently consists of Mr. Duan Xiongfei (Chairman), Ms. Lau Cheong and Mr. Wong Ka Kong Adam, the independent non-executive Directors.

The main duties of the Audit Committee are to consider the appointment, re-appointment and removal of the external auditor, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process and to discuss with the external auditor the nature and scope of the audit. It is also responsible for reviewing: (i) the interim and annual financial statements before submission to the Board and (ii) the Company's financial control, risk management and internal control systems and the internal audit programme (where appropriate). It also needs to discuss problems and reservations arising from the interim and final audits and to consider the major findings of internal investigations and management's response.

The Audit Committee shall meet at least twice a year according to its terms of reference. There were two meetings held during the year under review, details of attendance are set out below:

Audit Committee Members	Attendance/Number of Meetings
Mr. DUAN Xiongfei *(Chairman)*	2/2
Ms. LAU Cheong	2/2
Mr. WONG Ka Kong Adam	1/2

During the year under review, the Audit Committee had considered, reviewed and discussed any areas of concerns during the audit process, the compliance of company policy, the internal control procedures and the corporate governance of the Group and had approved the annual audited consolidated financial statements and the interim financial statements respectively.

Nomination Committee

The Nomination Committee currently consists of Mr. Duan Xiongfei (Chairman), Ms. Lau Cheong and Mr. Wong Ka Kong Adam, the independent non-executive Directors and Mr. Seah Ang, the executive Director.

The main duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and to identify individuals suitably qualified to become board members. It is also responsible for assessing the independence of independent non-executive Directors and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors. The recommendations of the Nomination Committee are then put forward for consideration and adoption, where appropriate, by the Board.

BOARD COMMITTEES (CONTINUED)

Nomination Committee (continued)

The Nomination Committee shall meet at least once per year according to its terms of reference. Four Nomination Committee meetings were held during the year under review, details of attendance are set out below:

Nomination Committee Members	Attendance/Number of Meetings
Mr. DUAN Xiongfei *(Chairman)*	4/4
Ms. LAU Cheong	4/4
Mr. WONG Ka Kong Adam	2/4
Mr. SEAH Ang	4/4

During the year under review, the Nomination Committee had reviewed the structure, size and composition of the Board, the assessment of the independence of the independent non-executive Directors, the retirement and re-appointment arrangement of the Directors and the appointment of the acting chairman of the Board and an independent non-executive Director.

Remuneration Committee

The Remuneration Committee currently consists of Mr. Duan Xiongfei (Chairman), Ms. Lau Cheong and Mr. Wong Ka Kong Adam, the independent non-executive Directors and Mr. Seah Ang, the executive Director.

The major responsibilities of the Remuneration Committee are to make recommendation to the Board on the Company's policy and structure for remuneration of the Directors and senior executives of the Company. The Committee shall determine, with delegated responsibility, the individual remuneration package of each executive Director (including the Chairman) and senior management including benefits in kind and pension rights (including allocation of share options, annual bonus plans) and compensation payments (including any compensation payable for loss or termination of their office or appointment) subject to the contractual terms, if any. When determining remuneration packages of the executive Directors and senior management of the Company, the Remuneration Committee takes into consideration factors such as market forces and remuneration packages of executive directors of similar companies in comparable industries both in Hong Kong and overseas.

The Remuneration Committee shall meet at least once per year according to its terms of reference. Two Remuneration Committee meetings were held during the year under review, details of attendance are set out below:

Remuneration Committee Members	Attendance/Number of Meetings
Mr. DUAN Xiongfei *(Chairman)*	2/2
Ms. LAU Cheong	2/2
Mr. WONG Ka Kong Adam	1/2
Mr. SEAH Ang	2/2

During the year under review, the Remuneration Committee had reviewed the existing remuneration policy of the Company and the remuneration structure for the Directors.

CORPORATE GOVERNANCE REPORT

NOMINATION POLICY

The Board has adopted a nomination policy which set out the selection criteria, procedure and process for the nomination of a candidate for directorship.

Nomination Criteria

The factors listed below, which are not exhaustive and the Board has discretion if it considers appropriate, would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate for the appointment of Director or re-election of any existing Director:

(i) gender, age, cultural and educational background, professional experience, skills and knowledge of the candidate;

(ii) effect on the Board's composition and diversity;

(iii) commitment of the candidate in respect of available time for carrying out his/her duties effectively;

(iv) conflicts of interest that may arise if the candidate is selected;

(v) compliance with the criteria of independence, in case for the appointment of an independent non-executive Director, as prescribed under Rule 3.13 of the Listing Rules; and

(vi) any other relevant factors as may be determined by the Nomination Committee or the Board from time to time as appropriate.

Nomination Procedures and Process

(i) the Nomination Committee identifies or selects candidates recommended pursuant to the above criteria.

(ii) the Nomination Committee may use any process it deems appropriate to evaluate the candidates, which may include interviews, written submissions by the candidates, third party references and background checks.

(iii) the Nomination Committee will consider the matter at the meeting or by circulating a resolution in writing to the members of the Nomination Committee and provide to the Board with all the information required in relation to the candidates. The Nomination Committee shall make recommendation to the Board for consideration and approval.

(iv) in case of re-election of an existing Director, the Nomination Committee will hold a meeting to consider the re-election based on the above criteria and, if such Director is an independent non-executive Director and has served the Board for more than 9 years, to assess whether he/she has remained independent. The Nomination Committee shall make recommendations to the Board for its consideration and recommendation for the proposed candidate to stand for re-election at a general meeting.

(v) pursuant to Rule 13.74 of the Listing Rules, where shareholders are required to vote on re-electing a director, the circular accompanying the notice of the relevant general meeting should contain all the information of the candidates required under Rule 13.51(2) of the Listing Rules and, if applicable, Code Provision A.5.5 of the CG Code.

(vi) the Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at a general meeting.

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy (the "Board Diversity Policy") which sets out the approach to achieve diversity on the Board.

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Board has set measurable objectives and selection of candidates for Board members will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee will monitor the implementation of the Board Diversity Policy and review this policy, as appropriate, to ensure its effectiveness from time to time.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

(i) to develop and review the Group's policies and practices on corporate governance and make recommendations;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable);

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and directors of the Group; and

(v) to review the Group's compliance with the code of corporate governance and disclosure requirements in the corporate governance report.

During the year under review, the Board reviewed and approved the corporate governance report contained in the annual report of the Company for the year 2019.

INDEPENDENT AUDITOR'S REMUNERATION

The remuneration paid and payable to the external auditor and the nature of services for the year ended 31 December 2020 are set out as follows:

Type of services	*HK$'000*
Audit services:	
Audit of annual financial statements	1,775
Non-audit services:	
Agreed upon procedures	197

COMPANY SECRETARY

The Company Secretary has complied with Rule 3.29 of the Listing Rules in relation to professional training during the year under review.

DIVIDEND POLICY

The Board has adopted a dividend policy (the "Dividend Policy") setting out the guidelines in deciding whether to propose a dividend and in determining an appropriate basis for dividend distribution.

The Board shall consider the following factors, among others, before declaring or recommending dividends:

(i) the operation and financial performance of the Group;

(ii) economic conditions;

(iii) the liquidity position, capital requirements and future funding needs of the Group;

(iv) the Shareholders' interests;

(v) contractual restrictions on payment of dividends by the Company to its shareholders or by the Company's subsidiaries to the Company;

(vi) any restrictions under the Company Act 1981 of Bermuda, the Listing Rules, the Bye-laws and any applicable laws, rules and regulations; and

(vii) any other factors that the Board deems appropriate.

The recommendation of the payment of dividend is subject to the absolute discretion of the Board, and any declaration of annual dividend for the year will be subject to the approval of the Shareholders. The Board will review the Dividend Policy from time to time.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

Convening a Special General Meeting by Shareholders

Pursuant to Bye-law 58 of the Bye-laws, a special general meeting may be convened by the Board upon requisition by any Shareholder holding not less than one-tenth of the paid up capital of the Company and the securities being held carrying the right of voting at any general meetings of the Company. The Shareholder shall make a written requisition to the Board or the Company Secretary at the head office address of the Company in Hong Kong, specifying the shareholding information and contact details of the Shareholder and the proposal regarding any specified transaction/business and its supporting documents.

The Board shall arrange to hold such general meeting within 2 months after the receipt of such written requisition. Pursuant to Bye-law 59 of the Bye-laws, the Company shall serve requisite notice of the general meeting, including the time and place of the general meeting and particulars of resolutions to be considered at the general meeting and the general nature of the business.

If within 21 days of the receipt of such written requisition, the Board fails to proceed to convene such general meeting, the Shareholder shall do so pursuant to the provisions of Section 74(3) of the Companies Act of Bermuda.

Putting Forward Proposals at General Meetings

A Shareholder shall make a written requisition to the Board or the Company Secretary at the head office address of the Company in Hong Kong, specifying the shareholding information and contact details of the Shareholder and the proposal the Shareholder intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

Making Enquiry to the Board

Shareholders may send written enquiries, either by post, by facsimile or by email, together with their contact details, such as postal address, email address or facsimile number, addressing to the head office of the Company in Hong Kong at the following address or facsimile number or via email:

Suite 1201, 12/F.,
Li Po Chun Chambers,
189 Des Voeux Road Central,
Hong Kong

Fax: (852) 2907 9898
Email: ir@ddhl.com

All enquiries shall be collected by the Company Secretary who shall report to the executive Directors periodically on the enquiries collected. The executive Directors shall review the enquiries and assign different kinds of enquiries to appropriate division head/manager for answering. After receiving the answers of all enquiries from the relevant division head/manager, the Company Secretary will collect the answers for the executive Directors' review and approval. The Company Secretary shall then be authorised by the executive Directors to reply all enquiries in writing.

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the media entertainment business and property investment business.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2020 and the state of affairs of the Company and of the Group as at 31 December 2020 are set out in the consolidated financial statements and their accompanying notes on pages 77 to 197. No interim dividend was paid or declared in respect of the year ended 31 December 2020 (2019: Nil). The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 25 to the consolidated financial statements respectively.

In view of the losses sustained by the Company, distributable reserves of the Company as at 31 December 2020 amounted to HK$594,690,000 solely comprised of contributed surplus.

PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2020 are set out in note 28 to the consolidated financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results, assets and liabilities of the Group for the last five financial years is set out in the section headed "Five Years Financial Summary" on page 198 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the Company's issued share capital and share options during the year and outstanding as at 31 December 2020 are set out in notes 24 and 26 to the consolidated financial statements respectively.

DIRECTORS' REPORT

DIRECTORS

The Directors who were in office during the year and those as at the date of this report are:

Executive Directors

SEAH Ang
Peter CHOU *(resigned on 4 June 2020)*

Non-executive Directors

JIANG Yingchun
CUI Hao
WANG Wei-Chung
Sergei SKATERSHCHIKOV *(appointed on 22 January 2021)*

Independent Non-executive Directors

DUAN Xiongfei
LAU Cheong
WONG Ka Kong Adam
Elizabeth Monk DALEY *(appointed on 20 July 2020)*
John Alexander LAGERLING *(resigned on 1 May 2020)*

Dr. Elizabeth Monk Daley and Mr. Sergei Skatershchikov were appointed as independent non-executive Directors and non-executive Director with effect from 20 July 2020 and 22 January 2021 respectively. In accordance with Bye-law 86(2) of the Bye-laws, any Director appointed by the Board to fill a casual vacancy should hold office until the first general meeting of members after her/his appointment and be subject to re-election at such meeting and any Director appointed by the Board as addition to the existing Board should hold office only until the next following annual general meeting of the Company and should be subject to re-election at such meeting. In this connection, Dr. Daley and Mr. Skatershchikov will retire and, being eligible, to offer themselves for re-election at the forthcoming annual general meeting of the Company.

In accordance with Bye-law 87(1) of the Bye-laws, Mr. Duan Xiongfei and Mr. Wong Ka Kong Adam will retire and, being eligible, to offer themselves for re-election at the forthcoming annual general meeting of the Company. Under code provision A.4.3 of the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules, Mr. Duan has served as an independent non-executive Director for more than 9 years and his re-election at the annual general meeting of the Company will be subject to a separate resolution to be approved by Shareholders.

None of the Directors, including those Directors who are proposed for re-election at the forthcoming annual general meeting of the Company, has an unexpired service contract with the Company, which is not determinable within one year without payment of compensation, other than statutory compensation.

The non-executive Directors and independent non-executive Directors have no specific term of office but their service contracts have a termination notice requirement of at least one month. They are subject to retirement by rotation and will be eligible for re-election at the annual general meeting of the Company in accordance with the Bye-laws.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors are as shown below:

Executive Directors

SEAH Ang, aged 36, joined the Group in 2013 as an executive vice president and was appointed as executive Director and the chief executive officer of the Company on 29 September 2014. He was also appointed as acting chairman of the Board and the chairman of the executive committee of the Company on 4 June 2020 respectively. Mr. Seah is presently a member of the nomination committee and the remuneration committee of the Company, and the authorised representative of the Company for the acceptance of service of any process or notice required to be served on the Company in Hong Kong under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). He is also a director of most of the subsidiaries and an officer of certain subsidiaries of the Company. Mr. Seah graduated from Peking University with a Master Degree of Law (major in international politics) and Bachelor of Arts Degree in Law. He previously worked as an investment banker at Barclays and has extensive experience in the financial industry with expertise in securities, options, fund management and international businesses development. His in-depth knowledge of the private equity markets in Greater China and global markets enabled him to focus on business development around the world. From May 2010 to March 2013, Mr. Seah was also a senior management of United Simsen Securities Limited, a company which provides brokerage services on securities, foreign exchange, gold bullion, futures and mutual funds. From June 2012 to March 2013, Mr. Seah was a non-executive director of King Stone Energy Group Limited (stock code: 663), a company whose shares are listed on the Stock Exchange.

Non-executive Directors

JIANG Yingchun, aged 52, was appointed as a non-executive Director on 30 May 2019. Mr. Jiang is currently an executive director and the general manager of Poly Culture Group Corporation Limited ("Poly Culture"), the shares of which are listed on the main board of the Stock Exchange (stock code: 3636). He is also the chairman of Beijing Poly International Auction Corporation Limited, Poly Auction (Hong Kong) Limited, Beijing Poly Art Centre Corporation Limited and Poly Culture North America Investment Corporation Limited respectively. Mr. Jiang served as the assistant to general manager and the vice general manager of Poly Culture from December 2001 to February 2007 and from February 2007 to November 2010. He holds a Bachelor's Degree in History majoring in archaeology in Peking University and qualification of editor.

CUI Hao, aged 32, was appointed as a non-executive Director on 30 May 2019. Mr. Cui is currently the executive deputy head of board office of Poly Culture, the shares of which are listed on the main board of the Stock Exchange (stock code: 3636). He served in the board office and poly strategy research institute of China Poly Group Corporation. Mr. Cui holds a Master's Degree in School of English and International Studies – American Studies in Beijing Foreign Studies University, a Bachelor's Degree in English Language and Literature and Economics in Shanghai International Studies University and Shanghai University of International Business and Economics respectively.

BIOGRAPHICAL DETAILS OF DIRECTORS (CONTINUED)

Non-executive Directors (continued)

WANG Wei-Chung, aged 63, was appointed as a non-executive Director on 30 May 2019. Mr. Wang holds a Bachelor's degree in Department of Journalism of the Chinese Culture University. He started working in the TV industry at the age of 20 and became a TV producer at the age of 24. He was the deputy general manager of TVBS, general manager of MCA, an international record company, and he also established Broadcasting Station - Voice of Taipei in 1993. Mr. Wang has been the general manager of Golden Star Entertainment Co. Ltd. since 1996, its businesses included TV programme production, TV series production, stage drama production, artist agency and event production. He has accumulated more than 43 years of experience in the film and TV industries, specializing in high-rating film and TV productions closely related to social trends, such as "Kangxi Lai Le (康熙來了)", "One Million Star (星光大道)", "Everybody Speaks Nonsenses (全民大悶鍋)" and "Jungle Voice (聲林之王)" etc. He has been affirmed a number of times by the Golden Bell Awards and drew attention of and reporting by international media including CNN. In recent years, he has been deeply involved in the stage dramas and is a well-known content operator for the Chinese entertainment industry.

Sergei SKATERSHCHIKOV (also known as Sergey Skaterschikov), aged 48, was appointed as a non-executive Director on 22 January 2021. He is a seasoned finance and board-level executive with 30 years of international experience in the finance, media and entertainment, telecom, technology and e-commerce industries. Mr. Skatershchikov is the principal in the Swiss investment firm IndexAtlas AG based in Zurich and New York, with his prior experience including at the C-level in Mobile TeleSystems Public Joint Stock Company (the shares of which were listed on New York Stock Exchange (NYSE: MBT)) from 2006 to 2008. He also held a board position in public joint-stock company LSR Group (the shares of which were listed on Moscow Exchange and London Stock Exchange (MCX/LSE: LSRG)) from 2007 to 2015, and director roles at Skate's Art Market Research LLC, E*Trade Eurasia, East West United Bank (Luxembourg), Creditanstalt Investment Bank (Austria) and Moscow office of Dresdner Kleinwort Wasserstein at various times between 1997 and 2015.

Mr. Skatershchikov is a graduate of Moscow State University (Lomonosov) and holds Master of Business Administration from the Fuqua School of Business at Duke University. He has written a number of books including Skate's Art Investment Handbook published by McGraw & Hill in 2009.

Independent Non-executive Directors

DUAN Xiongfei, aged 52, was appointed as an independent non-executive Director on 21 July 2009 and is presently the chairman of the audit committee, the nomination committee and the remuneration committee of the Company. He is currently an independent non-executive director, the chairman of the nomination and corporate governance committee and a member of the audit committee of Huobi Technology Holdings Limited (stock code: 1611), the shares of which are listed on the main board of the Stock Exchange. Mr. Duan holds a Master's Degree in Economics from Renmin University of China and a Master's Degree in Business Administration from The University of Chicago. He has over 20 years of experience in securities trading and the investment industry. Mr. Duan is currently the investment manager of MIE Holdings Corporation, a company listed on the Stock Exchange (stock code: 1555). He joined Atlantis Investment Management as Fund Manager in 2010 and registered as a Commodity Trading Advisor (CTA) in the National Futures Association (NFA) and the Commodity Futures Trading Commission (CFTC) in 2004.

BIOGRAPHICAL DETAILS OF DIRECTORS (CONTINUED)

Independent Non-executive Directors (continued)

LAU Cheong, aged 37, was appointed as an independent non-executive Director on 21 July 2009 and is presently a member of the audit committee, the nomination committee and the remuneration committee of the Company. Ms. Lau holds a Master's Degree in Public Policy and Management and a Bachelor's Degree in Business Administration from University of Southern California. She obtained three broker qualifications in the United States of America and previously worked in Morgan Stanley & Co. Incorporated. She is currently the chief executive officer of Sino Jet Management Limited and the president of Ponticello International Group Incorporated.

WONG Ka Kong Adam, aged 54, was appointed as an independent non-executive Director and a member of the audit committee, the remuneration committee and the nomination committee of the Company on 9 August 2013. Mr. Wong holds a Master's Degree in Business Administration from The Hong Kong Polytechnic University. He is a member and a practising certificate holder of the Hong Kong Institute of Certified Public Accountants. Mr. Wong has over 25 years' experience in auditing, commercial finance and accounting operation. He previously held various senior positions in listed companies with business in Hong Kong, Greater China and overseas. Mr. Wong currently holds a senior executive position in a licensed asset management and investment advisory company.

Elizabeth Monk DALEY, aged 78, was appointed as an independent non-executive Director on 20 July 2020. Dr. Daley has been the dean of the School of Cinematic Arts at the University of Southern California ("USC") since 1991. She is the inaugural holder of the Steven J. Ross/Time Warner Dean's Chair. Dr. Daley was also the founding executive director of the USC Annenberg Center for Communication from 1994 to 2005 and serves as the executive director of the USC Institute for Multimedia Literacy.

Before joining USC in 1989 as chair of the Film and Television Production Program, Dr. Daley had engaged in various positions in the entertainment industry, ranging from film and television producer to media consultant. She had also served on the board of the World Economic Forum's Global Agenda Council on Media, Entertainment and Information. Dr. Daley currently is an independent director and a member of the nominating and governance committee and the compensation committee of Avid Technology, Inc., the shares of which are traded on The Nasdaq Global Select Market under symbol "AVID". In addition, she is a member of both the Directors Guild of America and the Academy of Motion Picture Arts and Sciences.

Dr. Daley has been honored by American Women in Radio and Television and was twice nominated for a Los Angeles Area Emmy Award. She has received a CINE (Council on International Non-Theatrical Events) Golden Eagle and the Barbara Jordan Award, as well as the California Governor's Award for her work with programming about the handicapped.

Dr. Daley obtained a Ph.D. Degree from the University of Wisconsin-Madison and Bachelor's and Master's Degrees from Tulane University and Newcomb College. In 2016, she was awarded a Degree of Doctor of Letters, honoris causa, from Hong Kong Baptist University.

SHARE OPTION SCHEME

The share option scheme of the Company was adopted on 27 April 2012 and amended on 3 April 2014 (the "Option Scheme"). Pursuant to the Option Scheme, the Directors are authorised to grant options ("Options") to any Directors, any employees and those persons of the Group who have contributed or will contribute to the Group as incentive schemes and rewards. Apart from the Option Scheme, the Company did not have any other share option scheme.

(1) Purpose

The purpose of the Option Scheme is to reward participants who have contributed or will contribute to the Group and to encourage participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its Shareholders as a whole.

(2) Participants

Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group.

(3) The total number of Shares available for issue

The total number of Shares which may be issued upon exercise of options to be granted under the Option Scheme and any other share option schemes of the Company shall not, in the absence of Shareholders' approval, exceed 2,241,869,571 Shares, representing approximately 5.48% of the Shares in issue as at the date of this annual report.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the Shares in issue from time to time. No options shall be granted under any scheme(s) of the Company or any of its subsidiaries if this will exceed the aforesaid 30% limit.

(4) The maximum entitlement of each participant under the Option Scheme

The total number of Shares issued and to be issued upon the exercise of the options granted and to be granted to each participant of the Option Scheme (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Shares in issue.

Any further grant of options would result in the Shares issued and to be issued upon exercise in excess of this 1% limit shall be subject to the approval of the Shareholders in general meeting with such grantee and his close associates (or his associates if such grantee is a connected person) abstaining from voting and the requirements prescribed under the Listing Rules from time to time.

SHARE OPTION SCHEME (CONTINUED)

(5) The period within which the Shares must be taken up under an option

An option may be exercised in accordance with the terms of the Option Scheme at any time during the 10-year period from the date of grant.

(6) The minimum period for which an option must be held before it can be exercised

The Board is empowered to impose, at its discretion, any minimum period that an option must be held at the time of granting any option.

(7) The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid

Acceptance of the option must be made within 28 days from the date of grant and HK$1.00 must be paid as a consideration for the grant of option.

(8) The basis of determining the exercise price

The exercise price of the option shall be such price determined by the Board at its absolute discretion and notified to the participant in the offer but shall be no less than the highest of:

(a) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant which must be a business day;

(b) the average closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and

(c) the nominal value of the Shares.

(9) The remaining life of the Option Scheme

The Option Scheme is valid and effective for a period of 10 years commencing after the date of its adoption.

DIRECTORS' REPORT

SHARE OPTION SCHEME (CONTINUED)

The following table discloses movements in the Company's Options during the year:

	Number of Options							
Name and category of participant	**At 1 January 2020**	**Granted during the year**	**Exercised during the year**	**Cancelled/ lapsed during the year**	**At 31 December 2020**	**Date of grant**	**Exercise period**	**Exercise price per Share** (HK$)
Directors								
Seah Ang	100,000,000 *(Notes 2 and 3)*	–	–	–	100,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
Wang Wei-Chung	1,666,667 *(Note 5)*	–	–	–	1,666,667	29/01/2016	29/01/2016 to 28/01/2026	0.413
	1,666,667 *(Note 5)*	–	–	–	1,666,667	29/01/2016	29/01/2017 to 28/01/2026	0.413
	1,666,666 *(Note 5)*	–	–	–	1,666,666	29/01/2016	29/01/2018 to 28/01/2026	0.413
Employees of the Group								
Zhou Jian	150,000,000 *(Notes 2 and 3)*	–	–	–	150,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
Fan Lei	150,000,000 *(Notes 2 and 3)*	–	–	–	150,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
Other employees, in aggregate	344,730,000 *(Note 2)*	–	–	–	344,730,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
	20,990,000 *(Note 4)*	–	–	–	20,990,000	06/05/2015	06/05/2015 to 05/05/2025	1.320
	20,000,000 *(Note 4)*	–	–	–	20,000,000	06/05/2015	06/05/2016 to 05/05/2025	1.320
	19,000,000 *(Note 4)*	–	–	–	19,000,000	06/05/2015	06/05/2017 to 05/05/2025	1.320
	91,500,010 *(Note 5)*	–	–	–	91,500,010	29/01/2016	29/01/2016 to 28/01/2026	0.413
	81,499,998 *(Note 5)*	–	–	–	81,499,998	29/01/2016	29/01/2017 to 28/01/2026	0.413
	75,833,327 *(Note 5)*	–	–	–	75,833,327	29/01/2016	29/01/2018 to 28/01/2026	0.413
	50,000,000 *(Note 7)*	–	–	–	50,000,000	22/06/2016	22/06/2017 to 21/06/2026	0.495
	50,000,000 *(Note 7)*	–	–	–	50,000,000	22/06/2016	22/06/2018 to 21/06/2026	0.495

SHARE OPTION SCHEME (CONTINUED)

Name and category of participant	Number of Options: At 1 January 2020	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2020	Date of grant	Exercise period	Exercise price per Share (HK$)
Employees of the Group (continued)								
	16,666,692 *(Note 8)*	–	–	–	16,666,692	29/07/2016	29/07/2016 to 28/07/2026	0.566
	11,699,998 *(Note 8)*	–	–	–	11,699,998	29/07/2016	29/07/2017 to 28/07/2026	0.566
	8,433,324 *(Note 8)*	–	–	–	8,433,324	29/07/2016	29/07/2018 to 28/07/2026	0.566
	109,999,999 *(Note 10)*	–	–	–	109,999,999	24/04/2019	24/04/2019 to 23/04/2029	0.130
	6,666,667 *(Note 10)*	–	–	–	6,666,667	24/04/2019	29/02/2020 to 23/04/2029	0.130
	3,333,333 *(Note 10)*	–	–	–	3,333,333	24/04/2019	24/04/2020 to 23/04/2029	0.130
	6,666,667 *(Note 10)*	–	–	–	6,666,667	24/04/2019	28/02/2021 to 23/04/2029	0.130
	3,333,334 *(Note 10)*	–	–	–	3,333,334	24/04/2019	24/04/2021 to 23/04/2029	0.130
	–	292,200,000 *(Note 11)*	(1,700,000)	–	290,500,000	21/05/2020	21/05/2020 to 20/05/2030	0.046
	–	92,200,000 *(Note 11)*	–	–	92,200,000	21/05/2020	21/05/2021 to 20/05/2030	0.046
	–	93,600,000 *(Note 11)*	–	–	93,600,000	21/05/2020	21/05/2022 to 20/05/2030	0.046
Others								
Amit Chopra	48,000,000 *(Note 2)*	–	–	–	48,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
	5,000,000 *(Note 4)*	–	–	–	5,000,000	06/05/2015	06/05/2015 to 05/05/2025	1.320
	5,000,000 *(Note 4)*	–	–	–	5,000,000	06/05/2015	06/05/2016 to 05/05/2025	1.320
	5,000,000 *(Note 4)*	–	–	–	5,000,000	06/05/2015	06/05/2017 to 05/05/2025	1.320
	33,333,334 *(Notes 5 and 6)*	–	–	–	33,333,334	29/01/2016	29/01/2016 to 28/01/2026	0.413
	33,333,333 *(Notes 5 and 6)*	–	–	–	33,333,333	29/01/2016	29/01/2017 to 28/01/2026	0.413
	33,333,333 *(Notes 5 and 6)*	–	–	–	33,333,333	29/01/2016	29/01/2018 to 28/01/2026	0.413
Wei Ming	300,000,000 *(Note 9)*	–	–	–	300,000,000	13/02/2017	13/02/2017 to 12/02/2027	0.469
Total	1,788,353,349	478,000,000	(1,700,000)	–	2,264,653,349			

SHARE OPTION SCHEME (CONTINUED)

Notes:

1. Options are valid for 10 years from the date of grant.

2. Options granted on 28 May 2014 are exercisable with effect from the 3rd anniversary of the date of grant. The closing price of the shares immediately before the date on which such Options were granted was HK$0.099 per share.

3. The Options conditionally granted to Mr. Zhou Jian, Mr. Fan Lei and Mr. Seah Ang on 28 May 2014 (i.e. the date of grant) were approved by the Shareholders at the special general meeting of the Company held on 23 July 2014.

4. Each of one third of the Options granted to the grantees on 6 May 2015 are exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK$1.390 per share.

5. Each of one third of the Options granted to the grantees on 29 January 2016 are exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK$0.400 per share.

6. The Options conditionally granted to Mr. Amit Chopra on 29 January 2016 (i.e. the date of grant) were approved by the Shareholders at the annual general meeting of the Company held on 7 June 2016.

7. 50,000,000 Options granted on 22 June 2016 are exercisable from each of the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK$0.495 per share.

8. Each of one third of the Options granted to the grantees on 29 July 2016 are exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK$0.550 per share.

9. The Options conditionally granted to Mr. Wei Ming on 13 February 2017 (i.e. the date of grant) were approved by the Shareholders at the annual general meeting of the Company held on 1 June 2017 and are exercisable from the date of grant. The closing price of the shares immediately before the date on which such Options were granted was HK$0.465 per share.

10. 130,000,000 Options granted to the grantees on 24 April 2019, 109,999,999 Options, 3,333,333 Options and 3,333,334 Options of which are/shall be exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively; 6,666,667 Options and 6,666,667 Options of which are exercisable from 29 February 2020 and 28 February 2021 respectively. The closing price of the shares immediately before the date on which such Options were granted was HK$0.128 per share.

11. 478,000,000 Options granted to the grantees on 21 May 2020, 292,200,000 Options, 92,200,000 Options and 93,600,000 Options of which are/shall be exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK$0.047 per share.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director or a connected entity of a Director had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 December 2020, the interests and short positions of the Directors and chief executive of the Company in the Shares and underlying Shares (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (a) as recorded in the register required to be kept under Section 352 of the SFO; or (b) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Interests and short positions in the Shares and underlying Shares

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held	Total Interests (Long/short positions)	Approximate percentage of the issued share capital
Seah Ang	Interest of controlled corporation and beneficial owner *(Notes 1 and 2)*	2,008,531,324	100,000,000	2,108,531,324 (Long position)	6.19%
	Interest of controlled corporation *(Note 1)*	502,134,789	–	502,134,789 (Short position)	1.47%
Wang Wei-Chung	Beneficial Owner *(Note 3)*	–	5,000,000	5,000,000 (Long position)	0.01%

Notes:

1. Global Domain Investments Limited was deemed to be interested in 2,008,531,324 Shares by holding 502,134,789 Shares and taking a deemed interest in 1,506,396,535 Shares under section 317 of the SFO. Mr. Seah Ang was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Global Domain Investments Limited.

2. Mr. Seah Ang holds 100,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".

3. Mr. Wang Wei-Chung holds 5,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".

Save as disclosed above, as at 31 December 2020, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules.

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2020, which may also constitute connected transactions under the Listing Rules, are disclosed in note 37 to the consolidated financial statements.

During the year, the above-mentioned connected transactions, if applicable, have been complied with the disclosure requirement in accordance with Chapter 14A of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31 December 2020, so far as is known to any Director or chief executive of the Company, the following persons who had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Interests and short positions in the Shares and underlying Shares

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total Interests (Long/short positions)	Approximate percentage of the issued share capital
Global Domain Investments Limited	Beneficial owner and deemed interest under section 317 of the SFO *(Note 1)*	2,008,531,324	–	2,008,531,324 (Long position)	5.89%
	Beneficial owner *(Note 1)*	502,134,789	–	502,134,789 (Short position)	1.47%
Seah Ang	Interest of controlled corporation and beneficial owner *(Notes 1 and 2)*	2,008,531,324	100,000,000	2,108,531,324 (Long position)	6.19%
	Interest of controlled corporation *(Note 1)*	502,134,789	–	502,134,789 (Short position)	1.47%
Redmount Ventures Limited	Beneficial owner and deemed interest under section 317 of the SFO *(Note 3)*	2,008,531,324	–	2,008,531,324 (Long position)	5.89%
Wise Sun Holdings Limited	Person having a security interest in shares, beneficial owner and interest of controlled corporation *(Note 4)*	2,316,654,789	–	2,316,654,789 (Long position)	6.80%
Bright Ace Holdings Limited	Interest of controlled corporation *(Note 4)*	2,316,654,789	–	2,316,654,789 (Long position)	6.80%
Zhou Jian	Interest of controlled corporation and beneficial owner *(Notes 4, 5 and 6)*	2,381,878,527	150,000,000	2,531,878,527 (Long position)	7.43%

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (CONTINUED)

Interests and short positions in the Shares and underlying Shares (continued)

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total Interests (Long/short positions)	Approximate percentage of the issued share capital
C Digital Libraries Inc.	Interest of controlled corporation *(Note 12)*	6,814,760,000	–	6,814,760,000 (Long position)	20.00%
Ng Clive Cheang Neng	Interest of controlled corporation *(Note 12)*	6,814,760,000	–	6,814,760,000 (Long position)	20.00%
Poly Culture Group Corporation Limited	Beneficiary of a trust (other than a discretionary interest)	5,323,600,000	–	5,323,600,000 (Long position)	15.62%
Jade Link Holdings Limited	Beneficial owner *(Note 7)*	5,037,200,000	–	5,037,200,000 (Long position)	14.78%
Tang Elaine Yilin	Interest of controlled corporation *(Note 7)*	5,037,200,000	–	5,037,200,000 (Long position)	14.78%
CITIC Limited	Interest of controlled corporation *(Note 8)*	2,181,178,182	–	2,181,178,182 (Long position)	6.40%
CITIC Group Corporation	Interest of controlled corporation *(Note 8)*	2,181,178,182	–	2,181,178,182 (Long position)	6.40%
Kingkey Enterprise Holdings Limited	Beneficial owner *(Note 9)*	2,038,640,000	–	2,038,640,000 (Long position)	5.98%
Chen Jiarong	Interest of controlled corporation and beneficial owner *(Note 9)*	2,044,110,000	–	2,044,110,000 (Long position)	6.00%
Chen Jiajun	Interest of controlled corporation *(Note 9)*	2,038,640,000	–	2,038,640,000 (Long position)	5.98%
Kabo Limited	Beneficial owner and deemed interest under section 317 of the SFO *(Note 10)*	2,008,531,324	–	2,008,531,324 (Long position)	5.89%
	Beneficial owner *(Note 10)*	602,561,746	–	602,561,746 (Short position)	1.77%
Peter Chou	Interest of controlled corporation *(Notes 10 and 11)*	2,176,041,324	–	2,176,041,324 (Long position)	6.39%
	Interest of controlled corporation *(Note 10)*	602,561,746	–	602,561,746 (Short position)	1.77%

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (CONTINUED)

Interests and short positions in the Shares and underlying Shares (continued)

Notes:

1. Global Domain Investments Limited was deemed to be interested in 2,008,531,324 Shares by holding 502,134,789 Shares and taking a deemed interest in 1,506,396,535 Shares under section 317 of the SFO. Mr. Seah Ang was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Global Domain Investments Limited.

2. Mr. Seah Ang holds 100,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".

3. Redmount Ventures Limited was deemed to be interested in 2,008,531,324 Shares by holding 502,134,789 Shares and having a security interest in 1,506,396,535 Shares under section 317 of the SFO. Redmount Ventures Limited is wholly-owned by Wise Sun Holdings Limited which in turn is wholly-owned by Bright Ace Holdings Limited. Mr. Zhou Jian was deemed to be interested in the above Share by virtue of his 100% shareholding interest in Bright Ace Holdings Limited.

4. Wise Sun Holdings Limited beneficially holds 534,083,465 Shares and was deemed to be interested in 502,134,789 Shares held by Redmount Ventures Limited, and by having a security interest in 1,280,436,535 Shares under section 317 of the SFO. Redmount Ventures Limited is wholly-owned by Wise Sun Holdings Limited which in turn is wholly-owned by Bright Ace Holdings Limited. Mr. Zhou Jian was deemed to be interested in the above Shares by virtue of his 100% shareholding interest in Bright Ace Holdings Limited.

5. Mr. Zhou Jian was deemed to be interested in 65,223,738 Shares held by Ultra Gain Development Limited, which is 100% controlled by Mr. Zhou Jian.

6. Mr. Zhou Jian holds 150,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".

7. Jade Link Holdings Limited is wholly-owned by Tang Elaine Yilin. Tang Elaine Yilin was deemed to be interested in 5,037,200,000 Shares held by Jade Link Holdings Limited.

8. CITIC Group Corporation was deemed to be interested in 2,181,178,182 Shares held by Master Time Global Limited. Such Shares were owned by Master Time Global Limited which in turn is wholly owned by Dynasty One Investments Limited while Dynasty One Investments Limited is wholly owned by CITIC Limited. CITIC Limited is 32.53% and 25.60% controlled by CITIC Polaris Limited and CITIC Glory Limited respectively which are 100% controlled by CITIC Group Corporation.

9. Kingkey Enterprise Holdings Limited is 50% controlled by each of Mr. Chen Jiarong and Mr. Chen Jiajun. Mr. Chen Jiarong and Mr. Chen Jiajun were deemed to be interested in 2,038,640,000 Shares held by Kingkey Enterprise Holdings Limited. Mr. Chen Jiarong beneficially holds 5,470,000 Shares.

10. Kabo Limited was deemed to be interested in 2,008,531,324 Shares by holding 602,561,746 Shares and taking a deemed interest in 1,405,969,578 Shares under section 317 of the SFO. Mr. Peter Chou was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Kabo Limited.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (CONTINUED)

Interests and short positions in the Shares and underlying Shares (continued)

Notes: (continued)

11. Mr. Peter Chou was deemed to be interested in 167,510,000 Shares held by Honarn Inc., which is 100% controlled by Mr. Peter Chou.

12. Pursuant to the subscription agreement dated 11 December 2020 entered into between HLEE Finance S.à r.l. ("HLEE") and the Company, the Company has conditionally agreed to allot and issue and HLEE has conditionally agreed to subscribe for 6,814,760,000 Shares subject to the conditions set out in the subscription agreement. Mr. Ng Clive Cheang Neng was deemed to be interested in the above Shares by virtue of his 100% shareholding interest in C Digital Libraries Inc. while HLEE is 100% controlled by C Digital Libraries Inc. The aforesaid subscription was completed on 18 January 2021.

Save as disclosed above, as at 31 December 2020, the Company had not been notified of any other interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept under Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	2%
– five largest suppliers combined	8%
Sales	
– the largest customer	19%
– five largest customers combined	48%

None of the Directors, their close associates or any Shareholders (which to the knowledge of the Directors owns more than 5% of the Company's number of issued share) had an interest in the major suppliers or customers noted above.

DIRECTORS' REPORT

DISCLOSURE PURSUANT TO PARAGRAPH 13.21 OF CHAPTER 13 OF THE LISTING RULES

There was a banking facility (the "Facility") with the principal amount of HK$6,000,000 provided by a bank in Hong Kong to an indirectly-owned subsidiary of the Company (the "Subsidiary"), among the entertainment media segment which was discontinued by the end of December 2010, and imposed certain specific performance obligations on the Company, pursuant to which, the Company should not (i) hold less than 51% of the Subsidiary's equity interests effectively and (ii) hold less than 100% of equity interests in an intermediate wholly-owned subsidiary of the Company which held the Subsidiary ("Intermediate Holding Company"). The bank had the right to demand for repayment of all outstanding amounts due by the Subsidiary under the Facility, unless otherwise approved by the bank, if there is any breach of the aforesaid conditions. As at 31 December 2020, the outstanding loan principal of this Facility amounted to approximately HK$4,854,000 and the original last monthly instalment repayment should be in the year 2014.

On 20 December 2010, the Company announced that it would not provide further financial assistance to the entertainment media segment. As a result, the operation of the Subsidiary was discontinued by the end of December 2010. The aforesaid bank took legal action against the Subsidiary and the Intermediate Holding Company in respect of the Facility. A provisional liquidator and two joint and several liquidators were appointed for the Subsidiary on 11 July 2012 and 23 July 2013, respectively. However, there was no corporate guarantee for the Facility issued by the Company and other subsidiaries of the Company in favour of the Subsidiary and the Intermediate Holding Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

PUBLIC FLOAT

As at the date of this report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules.

CORPORATE GOVERNANCE

A report on the principal corporate governance practice adopted by the Company is set out on pages 42 to 52 of this annual report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws or the laws of Bermuda.

ENVIRONMENTAL POLICIES AND PERFORMANCE

As a responsible corporation, the Group plays an important role in protecting our environment and is committed to minimize our impact on the environment and natural resources.

The Company adopted effective environmental protection by introducing e-communication with our Shareholders and non-registered holders. The Company encourages investors to read the Company's corporate communication published on the websites of the Company and the Stock Exchange so as to reduce paper consumption.

The Group installed video conference and telephone conference facilities for convening board meetings, committee meetings and management meetings. It encourages attendees to attend the meetings without frequent travelling so as to reduce the energy consumption.

The Group encourages and educates staff to save energy and reduce of paper use. It also encourages environmental practices such as utilizing emails for internal and external communication, adopting e-filing in server, double-sided printing and copying, promoting using recycled paper and reducing energy consumption by switching off lightings and electrical appliances when not in use.

For further details, please refer to Environmental, Social and Governance Report which will be published as a separate report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements. The Group is committed to safeguarding Shareholders' rights and enhancing corporate governance standard by establishing the audit committee, nomination committee and remuneration committee of the Company.

The Group has registered or is registering its intellectual property, including but not limited to trademarks, patents and copyright in the Greater China region, USA, Canada, Europe, India and other relevant jurisdictions and takes all appropriate actions to protect and enforce its intellectual property rights.

As far as the Board is aware, the Company has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

For further details, please refer to Environmental, Social and Governance Report which will be published as a separate report.

DIRECTORS' REPORT

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2020 is set out in the sections headed "Chairman's Statement" on pages 4 to 5 and "Chief Executive Officer's Review" on pages 6 to 41 of this annual report. An analysis of each of the Group's capital risk management and financial risk management is provided in notes 40 and 41 to the consolidated financial statements.

The Company believes that employees are the valuable assets. The Group provides competitive remuneration package, benefit and opportunities for promotion to attract and motivate the employees.

The Group also understands that it is important to maintain good relationship with business partners, suppliers and customers. The management has kept good communication and exchanged ideas with them so as to achieve its long-term goals.

CONTRACTUAL ARRANGEMENTS

On 1 September 2019, through the contractual arrangements between a controlling subsidiary, 深圳市虛擬現實技術有限公司 ("Shenzhen VR Technology") and 深圳市維爾信息科技有限公司 ("Shenzhen Weier") and its shareholder, Mr. Peng Zhikang ("Mr. Peng"), the Group realized its control over Shenzhen Weier. Under the contractual arrangements, the Group is able to consolidate the financial results of Shenzhen Weier into the financial results of the Group from the commencement date of the contractual arrangements. Further details of the contractual arrangements are set out in the sub-section headed "Contractual Arrangements" under "Chief Executive Officer's Review" on pages 17 to 21 of the Company's annual report 2019.

Since the Group disposed its 22.29% of the total issued share capital of Lead Turbo Limited on completion (i.e. 31 July 2020), 3Glasses Group including Shenzhen Weier became a group of associates (changed from a group of non-wholly owned subsidiaries) of the Company. Accordingly, the assets, liabilities and financial results of 3Glasses Group would be deconsolidated from the consolidated financial statements of the Group.

For further details, please refer to the Company's announcement dated 17 July 2020 and the sub-section headed "Interests in Associates" under "Chief Executive Officer's Review" on pages 24 to 33 of this annual report.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the period from 1 January 2020 to 3 June 2020, the following Director is considered to have interests in businesses apart from the Group's businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules on the Stock Exchange.

Mr. Peter Chou ("Mr. Chou"), resigned as chairman of the Board and executive Director on 4 June 2020, held shareholding or interests and/or directorship in private companies involved in virtual reality and media entertainment ("Such Companies").

However, the Board was independent from the boards of directors of Such Companies and none of the Directors could personally control the Board. Such Companies were managed by its independent management and administration. Further, Mr. Chou was fully aware of, and had been discharging, his fiduciary duty to the Company and had acted in the best interest of the Company and its Shareholders as a whole during the period from 1 January 2020 to 3 June 2020. Therefore, the Group was capable of carrying on its businesses independently of, and at arm's length from, the businesses of Such Companies.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors in writing an annual confirmation of his/her independence for the year pursuant to Rule 3.13 of the Listing Rules and the Company considers all the independent non-executive Directors to be independent (including Mr. Duan Xiongfei who has served as an independent non-executive Director for more than 9 years and is eligible for re-election at the forthcoming annual general meeting of the Company).

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, every Director shall be entitled to be indemnified out of the assets and profits of the Company from and against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Group has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group throughout the year.

EMOLUMENT POLICY

The employees of the Group are remunerated on a performance-related basis.

The emoluments of the executive Directors are decided by the remuneration committee of the Company, having regard to the Company's operating results, individual performance and comparable market standards.

The Company has adopted a share option scheme as incentive and rewards to encourage participants (including directors and employees). Details of the Option Scheme are set out under "Share Option Scheme" of this report and in note 26 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

On 11 December 2020, the Company entered into the subscription agreement with HLEE Finance S.à r.l. ("Subscriber", whose ultimate beneficial owner is Mr. Clive NG Cheang Neng) in relation to the subscription. Pursuant to the subscription agreement, the Company had conditionally agreed to allot and issue 6,814,760,000 shares to the Subscriber at the subscription price of HK$0.05 per subscription share ("Subscription"). The Subscription was completed on 18 January 2021 and the subscription shares were allotted and issued pursuant to the general mandate of the Company.

The gross proceeds and net proceeds from the Subscription are approximately HK$340,738,000 and HK$340,538,000 respectively, and are intended to be applied towards formation of the joint venture company, media entertainment segment and general working capital of the Group.

On 21 May 2020, a total of 478,000,000 Options were granted under the Option Scheme to the grantees. The Options entitle the grantees to subscribe for up to a total of 478,000,000 new shares at an exercise price of HK$0.046 per share. During the year under review, 1,700,000 Options were exercised and no Options were cancelled or have lapsed.

Further details of the issue of shares and grant of Options are set out in the sub-sections headed "Shares" and "Share Options" under "Chief Executive Officer's Review" on page 37.

Save as disclosed above and under the sub-sections headed "Shares" and "Share Options" under "Chief Executive Officer's Review", the section headed "Share Option Scheme" above and note 26 to the consolidated financial statements, no equity-linked agreement was entered into by the Company during the financial year or subsisted at the end of the financial year.

DIRECTORS' REPORT

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CHANGE IN DIRECTOR'S INFORMATION

Pursuant to Rules 13.51B(1) of the Listing Rules, changes in the Director's information since the disclosure made in the interim report of the Company for the six months ended 30 June 2020 are set out as follows:

(1) Mr. Wong Ka Kong Adam, the independent non-executive Director, currently holds a senior executive position in a licensed asset management and investment advisory company and has resigned as senior executive position in a conglomerate listed on the main board of the Stock Exchange in February 2020.

(2) Mr. Sergei Skatershchikov has been appointed as non-executive Director with effect from 22 January 2021. As agreed by Mr. Skatershchikov and the Company, the director's fee of Mr. Skatershchikov for the period from 22 January 2021 (i.e. the date of appointment) to 31 December 2021 has been waived.

(3) As agreed by Mr. Seah Ang, the executive Director and chief executive officer of the Company, and the Company, the monthly director's fee of Mr. Seah has been reduced to HK$130,937.50 for the period from 1 February 2021 to 31 December 2021.

(4) As agreed by Dr. Elizabeth Monk Daley, the independent non-executive Director, and the Company, the annual director's fee of Dr. Daley has been reduced to US$46,154 for the period from 1 February 2021 to 31 December 2021.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the audited consolidated financial statements for the year.

INDEPENDENT AUDITOR

The consolidated financial statements for the year have been audited by BDO Limited who will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as the independent auditor of the Company.

On behalf of the Board

Seah Ang
Executive Director and Chief Executive Officer

Hong Kong, 31 March 2021

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF DIGITAL DOMAIN HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Digital Domain Holdings Limited (the "Company") and its subsidiaries (thereafter referred to as the "Group") set out on pages 77 to 197, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment of intangible assets

As at 31 December 2020, the carrying amount of the Group's intangible assets was HK$737,030,000 (including goodwill of HK$310,047,000) which is significant to the total assets of the Group.

The Group tests intangible assets (including goodwill) for impairment as at the end of the reporting period. For the purpose of assessing impairment, these assets were allocated to respective cash generating units ("CGUs"). Impairment loss is recognised by which the carrying amount of a CGU exceeds its recoverable amount. Recoverable amount of each CGU is the higher of its fair value less costs of disposal and value-in-use. In measuring the CGU's recoverable amounts, management, to their best estimate, had prepared cash flow projections with assumptions. Significant management judgement on assumptions with respect to the discount rate, revenue growth rate, forecasting periods was used. Management has concluded that carrying amount on one of the CGU exceeded its recoverable amount. As a result, an impairment on goodwill of HK$305,119,000 recognised in the profit or loss during the year.

We focused on this area and identified it as the key audit matter because of the significance of the intangible assets (including goodwill) to the Group and the level of the subjectivity associated with the judgement and assumptions used in estimating the value-in-use and fair value less costs of disposal of the CGUs.

Refer to "Impairment of non-financial assets" in summary of significant accounting policies in note 4, critical accounting estimates and judgements in note 5 and disclosure of intangible assets (including goodwill) in note 15 to the consolidated financial statements.

Our response:

Our audit procedures in relation to management's impairment assessment included:

- With the assistance of our internal valuation specialists, assessed the methodology used by the Group in performing impairment assessment;

- Challenged the reasonableness of key assumptions based on our knowledge of the business and industry; and

- Reconciled input data to supporting evidence, such as latest financial forecasts approved by the management and considering the reasonableness of these forecasts.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors of the Company (the "Directors") are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and the auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the Directors in discharging their responsibility in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of Bermuda Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited
Certified Public Accountants

Pak Tak Lun
Practising Certificate number: P06170

Hong Kong, 31 March 2021

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	**2020** HK$'000	**2019** HK$'000 (Re-presented)
Continuing operations			
Revenue	*6*	601,301	548,125
Cost of sales and services rendered	*8*	(536,571)	(469,043)
Gross profit		64,730	79,082
Other income and gains	*7*	146,948	124,419
Selling and distribution expenses		(28,235)	(8,016)
Administrative expenses and other net operating expenses		(403,049)	(446,897)
Finance costs	*9*	(29,217)	(78,491)
Fair value gains on investment properties		–	700
Gain on disposal of subsidiaries		–	111,999
Impairment loss on goodwill	*15*	(305,119)	(74,419)
Reversal/(recognition) of impairment loss on trade receivables and contract assets		1,440	(5,142)
Impairment loss on other receivables		(1,687)	(7,151)
Impairment loss on amounts due from associates	*16*	(36,365)	(77,768)
Share of losses of associates	*16*	(10,554)	(21,988)
Loss before taxation		(601,108)	(403,672)
Taxation	*11(a)*	229	(1,350)
Loss from continuing operations		(600,879)	(405,022)
Discontinued operation			
Loss from discontinued operation	*8*	(25,624)	(14,557)
Loss for the year	*8*	(626,503)	(419,579)
Loss attributable to:			
Owners of the Company			
Loss for the year from continuing operations		(584,205)	(391,077)
Loss for the year from discontinued operation		(14,322)	(9,736)
		(598,527)	(400,813)
Non-controlling interest			
Loss for the year from continuing operations		(16,674)	(13,945)
Loss for the year from discontinued operation		(11,302)	(4,821)
	29	(27,976)	(18,766)
		(626,503)	(419,579)
Loss per share from continuing operations attributable to the owners of the Company			
Basic and diluted	*12*	HK cents (1.611)	HK cents (1.150)
Loss per share from discontinued operation attributable to the owners of the Company			
Basic and diluted	*12*	HK cents (0.040)	HK cents (0.029)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	**2020** HK$'000	**2019** HK$'000 (Re-presented)
Loss for the year		(626,503)	(419,579)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		733	(1,489)
Share of other comprehensive income of associates	*16*	(2,859)	93
Share of other comprehensive income of a joint venture	*17*	42	(12)
Net other comprehensive income that may be reclassified to profit or loss		(2,084)	(1,408)
Items that will not be reclassified to profit or loss:			
Changes in fair value of equity instruments at fair value through other comprehensive income, net of tax		–	(165,976)
Net other comprehensive income that will not be reclassified to profit or loss		–	(165,976)
Other comprehensive income for the year, net of tax		(2,084)	(167,384)
Total comprehensive income for the year		(628,587)	(586,963)
Total comprehensive income attributable to:			
– Owners of the Company			
Loss from continuing operations		(586,441)	(556,589)
Loss from discontinued operation		(14,321)	(11,532)
		(600,762)	(568,121)
– Non-controlling interest			
Loss from continuing operations		(16,256)	(13,131)
Loss from discontinued operation		(11,569)	(5,711)
	29	(27,825)	(18,842)
		(628,587)	(586,963)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Notes	2020 HK$'000	2019 HK$'000
Non-current assets			
Property, plant and equipment	*13*	75,477	72,002
Right-of-use assets	*14*	88,415	132,749
Intangible assets	*15*	737,030	1,346,042
Interests in associates	*16*	265,104	79,973
Interest in a joint venture	*17*	46	4
Financial asset measured at fair value through other comprehensive income	*18*	–	–
Deposits and other receivables	*19*	44,375	12,857
Deferred tax assets	*11(b)*	445	176
		1,210,892	1,643,803
Current assets			
Inventories		–	22,970
Trade receivables, other receivables and prepayments	*19*	154,657	169,674
Contract assets	*20(a)*	17,802	13,170
Bank balances and cash	*21*	113,899	325,433
		286,358	531,247
Current liabilities			
Trade payables, other payables and accruals	*22*	176,572	108,821
Lease liabilities	*14*	37,368	49,672
Contract liabilities	*20(b)*	44,902	66,873
Borrowings	*23*	154,285	54,870
Contingent consideration payable		–	14,259
Tax payable		5,225	5,073
		418,352	299,568
Net current (liabilities)/assets		(131,994)	231,679
Total assets less current liabilities		1,078,898	1,875,482

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Notes	2020 HK$'000	2019 HK$'000
Non-current liabilities			
Borrowings	*23*	142,309	219,515
Lease liabilities	*14*	77,220	114,977
Deferred tax liabilities	*11(b)*	46,498	63,795
		266,027	398,287
NET ASSETS		812,871	1,477,195
Capital and reserves			
Share capital	*24*	340,754	340,737
Reserves		500,677	1,085,815
Equity attributable to owners of the Company		841,431	1,426,552
Non-controlling interest	*29*	(28,560)	50,643
TOTAL EQUITY		812,871	1,477,195

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 31 March 2021 and are signed on its behalf by:

Seah Ang
DIRECTOR

Duan Xiongfei
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

		Attributable to owners of the Company												
	Notes	Share capital HK$'000 *(Note 24)*	Share premium HK$'000 *(Note 25(i))*	FVOCI reserve HK$'000 *(Note 25(ii))*	Buildings revaluation reserve HK$'000 *(Note 25(iii))*	Contributed surplus HK$'000 *(Note 25(iv))*	Share options reserve HK$'000 *(Note 25(v))*	Deferred shares reserve HK$'000 *(Note 25(vi))*	Exchange fluctuation reserve HK$'000 *(Note 25(vii))*	Other reserve HK$'000 *(Note 25(viii))*	Accumulated losses HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
As at 1 January 2019		267,314	1,290,487	(30,237)	7,355	594,690	169,132	7,767	327	6,197	(1,097,664)	1,215,368	78,140	1,293,508
Recognition of equity-settled share-based payment expenses	*26*	–	–	–	–	–	5,113	–	–	–	–	5,113	–	5,113
Issue of shares on placement, net of expenses	*24(b)*	73,236	686,126	–	–	–	–	–	–	–	–	759,362	–	759,362
Issue of shares for acquisition of intangible assets completed in previous years	*24(c)*	127	7,580	–	–	–	–	(7,767)	–	–	–	(60)	–	(60)
Deemed disposal of subsidiaries without loss of control		–	–	–	–	–	–	–	102	–	14,209	14,311	1,373	15,684
Issue of shares exercise of share options, net expenses	*24(a)*	60	519	–	–	–	(206)	–	–	–	206	579	–	579
Release upon disposal of subsidiaries		–	–	–	(7,355)	–	–	–	–	–	7,355	–	(10,028)	(10,028)
Loss for the year		–	–	–	–	–	–	–	–	–	(400,813)	(400,813)	(18,766)	(419,579)
Currency translation differences		–	–	–	–	–	–	–	(1,413)	–	–	(1,413)	(76)	(1,489)
Share of other comprehensive income of associates	*16*	–	–	–	–	–	–	–	93	–	–	93	–	93
Share of other comprehensive income of a joint venture	*17*	–	–	–	–	–	–	–	(12)	–	–	(12)	–	(12)
Change in fair value of equity instrument at fair value through other comprehensive income, net of tax		–	–	(165,976)	–	–	–	–	–	–	–	(165,976)	–	(165,976)
Total comprehensive income for the year		–	–	(165,976)	–	–	–	–	(1,332)	–	(400,813)	(568,121)	(18,842)	(586,963)
As at 31 December 2019		340,737	1,984,712	(196,213)	–	594,690	174,039	–	(903)	6,197	(1,476,707)	1,426,552	50,643	1,477,195

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

		Attributable to owners of the Company										
	Notes	Share capital HK$'000 (Note 24)	Share premium HK$'000 (Note 25(i))	FVOCI reserve HK$'000 (Note 25(ii))	Contributed surplus HK$'000 (Note 25(iv))	Share options reserve HK$'000 (Note 25(v))	Exchange fluctuation reserve HK$'000 (Note 25(vii))	Other reserve HK$'000 (Note 25(viii))	Accumulated losses HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
As at 1 January 2020		340,737	1,984,712	(196,213)	594,690	174,039	(903)	6,197	(1,476,707)	1,426,552	50,643	1,477,195
Recognition of equity-settled share-based payment expenses	26	–	–	–	–	7,943	–	–	–	7,943	–	7,943
Issue of shares on exercise of share options, net of expenses	24(a)	17	61	–	–	(33)	–	–	33	78	–	78
Disposal of subsidiaries	31	–	–	–	–	–	7,620	(2,329)	2,329	7,620	(51,378)	(43,758)
Loss for the year		–	–	–	–	–	–	–	(598,527)	(598,527)	(27,976)	(626,503)
Currency translation differences		–	–	–	–	–	582	–	–	582	151	733
Share of other comprehensive income of associates	16	–	–	–	–	–	(2,859)	–	–	(2,859)	–	(2,859)
Share of other comprehensive income of a joint venture	17	–	–	–	–	–	42	–	–	42	–	42
Total comprehensive income for the year		–	–	–	–	–	(2,235)	–	(598,527)	(600,762)	(27,825)	(628,587)
As at 31 December 2020		340,754	1,984,773	(196,213)	594,690	181,949	4,482	3,868	(2,072,872)	841,431	(28,560)	812,871

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 HK$'000	2019 HK$'000 (Re-presented)
Cash flows from operating activities		
Loss before taxation from continuing operations	(601,108)	(403,672)
Loss before taxation from discontinued operation	(29,841)	(18,621)
	(630,949)	(422,293)
Adjustments for:		
Depreciation of property, plant and equipment	29,933	30,389
Depreciation of right-of-use assets	42,683	50,584
Gain on disposal of intangible assets	–	(2,735)
Amortisation of intangible assets	89,134	104,320
(Gain)/loss on disposal of property, plant and equipment	(274)	2,073
Gain on disposal of subsidiaries	(9,100)	(111,999)
Covid-19-related rent concessions	(813)	–
Effect of lease modification	(431)	–
Equity-settled share-based payment expenses	7,943	5,113
Net exchange gains	(7,172)	(5,760)
Fair value gains on investment properties	–	(700)
Share of losses of associates	10,554	21,988
Impairment loss on goodwill	305,119	74,419
(Reversal)/recognition of impairment loss on trade receivables and contract assets	(900)	5,244
Impairment loss on other receivables	1,687	7,377
Impairment loss on amounts due from associates	36,365	77,768
Change in fair value of contingent consideration payable	–	(41,396)
Interest income	(5,654)	(8,468)
Finance costs	29,276	79,046
Operating loss before working capital changes	(102,599)	(135,030)
Decrease/(increase) in inventories	204	(6,717)
Decrease/(increase) in trade receivables, other receivables and prepayments	42,159	(19,105)
Increase in contract assets	(4,702)	(5,439)
Increase/(decrease) in trade payables, other payables and accruals	59,688	(31,340)
(Decrease)/increase in contract liabilities	(21,662)	35,022
Cash used in operations	(26,912)	(162,609)
Income tax (paid)/refunded	(382)	221
Interest paid	(26,175)	(73,206)
Net cash used in operating activities	(53,469)	(235,594)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 HK$'000	2019 HK$'000 (Re-presented)
Cash flows from investing activities			
Interest received		1,748	8,419
Purchases of property, plant and equipment		(36,712)	(26,363)
Lease payments made at or before the commencement date		(1)	–
Proceeds from disposal of property, plant and equipment		561	–
Additions to intangible assets		(126,701)	(61,395)
Proceeds from disposal of intangible assets		–	3,729
Advance to associates		(13,026)	(57,926)
Settlement of contingent consideration payable		(5,410)	(45,613)
Increase in bank deposits with more than three months to maturity when placed or pledged		(69,700)	(15,582)
Net cash outflow from business combination	*30*	–	(19,050)
Net cash inflow from disposal of subsidiaries	*31,32*	23,512	233,412
Proceeds from deemed disposal of subsidiaries without loss of control		–	15,582
Net cash (used in)/generated from investing activities		(225,729)	35,213
Cash flows from financing activities			
Proceeds from issue of ordinary shares, net of issuing expenses		–	759,302
Proceeds from exercise of share options		78	579
New bank borrowings		68,494	51,641
Repayment of bank borrowings		(37,610)	(151,796)
Repayment of principal portion of lease liabilities		(46,328)	(45,355)
New inception of other loans		39,347	167,800
Repayment of other loans		(25,864)	(346,265)
Net cash (used in)/generated from financing activities		(1,883)	435,906
Net (decrease)/increase in cash and cash equivalents		(281,081)	235,525
Effect of foreign exchange rate changes		(153)	(1,704)
Cash and cash equivalents at beginning of the year		309,851	76,030
Cash and cash equivalents at end of the year		28,617	309,851
Represented by:			
Bank balances and cash		113,899	325,433
Bank deposits with more than three months to maturity when placed or pledged		(85,282)	(15,582)
		28,617	309,851

1. ORGANISATION AND OPERATIONS

Digital Domain Holdings Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and has its principal place of business at Suite 1201, 12F., Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong.

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 28.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new or amended HKFRSs – effective on 1 January 2020

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Company and its subsidiaries (collectively the "Group")

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Hedge Accounting – Interest Rate Bench Mark Reform
Amendments to HKFRS 16	Covid-19-Related Rent Concessions (early adoption)

None of these new or amended HKFRSs has a material impact on the Group's results and financial position for the current or prior period. Except for the amendments to HKFRS 16, Covid-19-Related Rent Concessions, the Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period. Impact on the applications of these amended HKFRSs are summarised below.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(a) Adoption of new or amended HKFRSs – effective on 1 January 2020 (continued)

Amendments to HKFRS 16 – Covid-19-Related Rent Concessions

HKFRS 16 was amended to provide a practical expedient to lessees in accounting for rent concessions arising as a result of the Covid-19 pandemic, by including an additional practical expedient in HKFRS 16 that permits entities to elect not to account for rent concessions as lease modifications. The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 pandemic and only if all of the following criteria are satisfied:

(i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

(iii) there is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with this practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of lease modification. Lessees shall apply other requirements of HKFRS 16 in accounting for the rent concession.

Accounting for rent concessions as lease modifications would have resulted in the Group remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset. By applying the practical expedient, the Group is not required to determine a revised discount rate and the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

The Group has elected to utilise the practical expedient for all rent concessions that meet the criteria. In accordance with the transitional provisions, the Group has applied the amendments retrospectively, and has not restated prior period figure. As the rent concessions have arisen during the current financial period, there is no retrospective adjustment to opening balance of retained earnings at 1 January 2020 on initial application of the amendments. Accordingly, a reduction in the lease payments arising from the rent concessions of HK$813,000 has been accounted for as a negative variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New or amended HKFRSs that have been issued but are not yet effective and not early adopted

The following new or amended HKFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 3	Reference to the Conceptual Framework[3]
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[4]
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract[2]
Annual Improvements to HKFRSs 2018-2020 Cycle	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022
4 Effective for annual periods beginning on or after 1 January 2023
5 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined

Amendments to HKFRS 3 – Reference to the Conceptual Framework

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The directors of the Company (the "Directors") do not anticipate that the application of these amendments in the future will have an impact on the financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New or amended HKFRSs that have been issued but are not yet effective and not early adopted (continued)

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 – Interest Rate Benchmark Reform – Phase 2

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the "Reform"). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

The Directors do not anticipate that the application of these amendments in the future will have an impact on the financial statements.

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Directors do not anticipate that the application of these amendments may have an impact on the financial statements in future periods should such transaction arise.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New or amended HKFRSs that have been issued but are not yet effective and not early adopted (continued)

Amendments to HKAS 1 – Classification of Liabilities as Current or Non-current

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The Directors do not anticipate that the application of these amendments in the future will have an impact on the financial statements.

Amendments to HKAS 16 – Property, Plant and Equipment: Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The Directors are currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements.

Amendments to HKAS 37 – Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The Directors are currently assessing the impact that the application of the amendments will have on the financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New or amended HKFRSs that have been issued but are not yet effective and not early adopted (continued)

Annual Improvements to HKFRSs 2018-2020 Cycle – Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The annual improvements amend a number of standards, including:

- HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, which permit a subsidiary that applies paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to HKFRSs.

- HKFRS 9, Financial Instruments, which clarify the fees included in the '10 per cent' test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.

- HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- HKAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The Directors do not anticipate that the application of these amendments in the future will have an impact on the financial statements.

3. BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Basis of measurement and basis for the preparation of the consolidated financial statements on a going concern basis

These consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The outbreak of the Covid-19 pandemic and the lockdown measures imposed by governments in various countries to contain the spreading of Covid-19 pandemic had resulted in cinemas and movie theatres been closed, and film releases been moved to future dates or delayed indefinitely with film productions, and therefore visual effect production and post production, also halted. These have negatively impacted the results of the Group during the reporting period and the liquidity position.

For the year ended 31 December 2020, the Group has incurred a loss of HK$600,879,000 from continuing operations and at the end of reporting period, its current liabilities exceeded its current assets by HK$131,994,000. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business. Management has planned to take steps to reduce discretionary expenses and administrative costs to improve the Group's liquidity position and to reduce operating costs. As described in note 39(i), a share subscription entered into by the Company was completed subsequent to the reporting date, provided extra cash flows of HK$340,538,000 to the Group.

As there is uncertainty over how the Covid-19 pandemic will impact the Group's business in future periods, directors of the Company had prepared cash flow projections covering a period of 12 months from the end of the reporting period. The assumptions are based on the estimated potential impact of Covid-19 pandemic as described in note 39(ii) and taken into consideration of any subsequent development since the end of the reporting period. Under the projection, the Group is expected to continue to have sufficient headroom in its working capital and there are no material uncertainties regarding these assumptions and accordingly, the consolidated financial statements have been prepared on a going concern basis.

Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollar ("HK$"), which is the same as the functional currency of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES

Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All inter-company transactions and balances within the Group together with unrealised profits are eliminated in full on consolidation.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive processes and whether the acquired set has the ability to produce outputs.

The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combination and basis of consolidation (continued)

Subsequent to acquisition, the carrying amount of non-controlling interest that represents present ownership interest in the subsidiary is the amount of that interest at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income is attributed to non-controlling interest even if this results in the non-controlling interest having a deficit balance.

Changes in the Company's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Company's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, the gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for on the same basis as would be required if the relevant assets or liabilities were disposed of.

Subsidiaries

A subsidiary is an investee (including structured entity) over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: (i) power over the investee, (ii) exposure, or rights, to variable returns from the investee, and (iii) the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including:

– the size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;

– substantive potential voting rights held by the Company and other parties who hold voting rights;

– other contractual arrangements; and

– historic patterns in voting attendance.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investors' share in the associates' profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of investment, after reassessment, is recognised immediately in profit or loss. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

Joint arrangements

The Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

– Joint ventures: where the Group has rights to only the net assets of the joint arrangement; or

– Joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint arrangements (continued)

In assessing the classification of interests in joint arrangements, the Group considers:

– the structure of the joint arrangement;

– the legal form of joint arrangements structured through a separate vehicle;

– the contractual terms of the joint arrangement agreement; and

– any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests in joint ventures in the same manner as interests in associates (i.e. using the equity method).

The Group accounts for its interests joint operations by recognising its share of assets, liabilities, revenue and expenses in accordance with its contractually conferred rights and obligations.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Historical cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to profit or loss in the period in which it is incurred. In situations where it is probable that future economic benefits of the expenditure will flow to the entity, and the cost of which can be measured reliably, the expenditure is capitalised as an additional cost of the asset or a separate asset.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Depreciation is charged so as to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The useful lives are as follows:

Furniture, fixtures and equipment	1 to 10 years
Machineries	3 to 5 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate classes of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- right-of-use assets;
- intangible assets (including goodwill); and
- interests in associates and joint ventures.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. Recoverable amount is the higher of fair value less costs of disposal and value-in-use.

In assessing value-in-use, the estimated future cash flows expected to be derived from the CGU are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

(i) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interest over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired in accordance with accounting policy on "Impairment of non-financial assets".

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant CGUs that are expected to benefit from the synergies of the combination. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which allocated goodwill is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit on a pro-rata basis on the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value-in-use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent period.

(ii) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. Intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

(iii) Internally generated intangible assets (research and development costs)

Expenditure on internally developed intangible assets (including films) is capitalised if it can be demonstrated that:

– it is technically feasible to develop the asset for it to be sold;

– there is an intention to complete and use or sell the asset;

– the Group is able to use or sell the asset;

– how the use or sale of the asset will generate probable future economic benefits to the Group is demonstrable;

– adequate resources are available to complete the development;

– sale of the asset will generate future economic benefits; and expenditure on the asset can be measured reliably.

Capitalised development costs are amortised over the periods as appropriate. The Group expects to benefit from using or selling the asset developed. The amortisation expense is recognised in profit or loss and included in cost of services rendered.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

(v) Amortisation

The amortisation is charged on a straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets with finite useful lives are ready for use. The amortisation expense is recognised in profit or loss. The estimated useful lives and amortisation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The principal annual rates of intangible assets with finite useful lives are as follows:

Proprietary software	3 years
Participation rights	3 to 5 years
Patents	10 to 15 years
Virtual human know-how	10 years
Backlog contracts	2 years
Licences for intellectual property rights	over the terms of the relevant licensing agreements
Other licences	over the terms of the relevant licensing agreements
Film rights	refer to note 15(j)

(vi) Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Financial Instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL (as defined below), transaction costs that are directly attributable to its acquisition or issue. Trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

(i) Financial assets (continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Fair value through profit or loss ("FVTPL"): Financial assets measured at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

(i) Financial assets (continued)

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at FVOCI are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

(ii) Impairment loss on financial assets and contract assets

The Group recognises loss allowances for expected credit loss ("ECL") on trade receivables, contract assets, financial assets measured at amortised cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12-month ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group measures loss allowances for trade receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on lifetime ECLs except when there has not been a significant increase in credit risk since initial recognition, in which case the allowance will be based on the 12-month ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

(ii) Impairment loss on financial assets and contract assets (continued)

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to action such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

The Group considers a financial asset to be credit-impaired when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred, including the following observable events: (1) significant financial difficulty of the debtor; (2) a breach of contract, such as a default or being more than 90 days past due; (3) the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; (4) it is probable that the debtor will enter bankruptcy or other financial reorganisation; or (5) the disappearance of an active market for a security because of financial difficulties.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are long aged, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group’s recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL are initially measured at fair value and financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

(iii) Financial liabilities (continued)

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at FVTPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at FVTPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost

Financial liabilities at amortised cost, including trade payables, other payables and accruals, borrowings and lease liabilities, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged or cancelled, or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is a part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises the post-tax profit or loss of the discontinued operation and post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits and highly liquid investments with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. For the purpose of the statement of cash flows, bank overdrafts that are repayable on demand and that form an integral part of the Group's cash management are included in cash and cash equivalents.

Leases

The Group as a lessee

All leases are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise:

(i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability);

(ii) any lease payments made at or before the commencement date, less any lease incentives received;

(iii) any initial direct costs incurred by the lessee; and

(iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Right-of-use asset (continued)

The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets. The useful lives are as follows:

Buildings	2 to 10 years
Equipment	2 to 3 years

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use on the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments:

(i) fixed payments less any lease incentives receivable;

(ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date;

(iii) amounts expected to be payable by the lessee under residual value guarantees;

(iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

(v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Lease liability (continued)

Subsequent to the commencement date, the Group shall measure the lease liability by:

(i) increasing the carrying amount to reflect interest on the lease liability;

(ii) reducing the carrying amount to reflect the lease payments made; and

(iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

When the Group renegotiates the contractual terms of a lease with the lessor, if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease, in all other cases, where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount. With the exception to which the practical expedient for Covid-19-Related Rent Concessions applies (see note 2(a)), if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date and the right-of-use asset is adjusted by the same amount.

Accounting as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased assets to the lessee. All other leases are classified as operating leases.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliable estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income tax.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill not deductible for tax purposes and initial recognition of assets and liabilities that are not part of the business combination which affect neither accounting nor taxable profits, taxable temporary differences arising on investments in subsidiaries, associates and joint ventures where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised, provided that the deductible temporary differences are not arises from initial recognition of assets and liabilities in a transaction other than in a business combination that affects neither taxable profit nor the accounting profit. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period, and reflects any uncertainty related to income taxes.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

Translation of foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in HK$ which is the functional currency of the Company.

In preparing the financial statements of the individual entities, foreign currency transactions are translated into individual entity's functional currency at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in HK$ using exchange rates prevailing at the end of reporting period. Income and expenses items (including comparatives) are translated at the average exchange rates at the dates of the transactions. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in exchange fluctuation reserve. Such translation differences, to the extent attributable to the owners of the Company, are recognised in profit or loss in the period when the foreign operations are disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the exchange fluctuation reserve.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employees' benefits

Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees rendered the related service.

Retirement benefit scheme

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions, if any.

Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Share-based payments

For equity-settled share-based payment transactions, the Group shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the goods or services received, the Group shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the employee share options reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all non-market vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of the goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added taxes or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception.

Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

(i) Services of visual effects production and post production

Revenue from the provision of services of visual effects production and post production is recognised over time, using the input method to measure progress towards complete satisfaction of the service, because (1) the Group's production works enhance assets that the customers control as the assets is enhanced; and (2) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs.

(ii) Sales of goods

Revenue from the sales of goods is recognised at the point in time when control of the asset is transferred to the customers, generally on delivery of the goods.

Some contracts for the sales of goods provide customers with right of return. The rights of return give rise to variable consideration.

Right of return:
For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of–return assets (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(iii) Sale of hardware and solution services

The Group provides solution services that are sold bundled together with the sale of hardware to a customer. The hardware and solution services are highly interdependent and interrelated.

Contracts for bundled sales of hardware and solution services are comprised of only a single performance obligation because the promises to transfer the hardware and provide solution services are not distinct or separately identifiable. Accordingly, allocation of the transaction price is not applicable because the contract has only one performance obligation.

Revenue from sales of hardware and solution services is recognised at the point in time when control of the asset is transferred to the customer, generally on customer's acceptance of the hardware and solution services.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

(iv) Licence fee income

The Group grants certain licences for using its virtual reality contents to customers for licence fee income.

The Group did not have unconditional right, and is not expected to undertake activities that significantly affect the licensed virtual reality contents to which the customers have rights to. Accordingly, the Group considers the granting of a licence as providing the customers the right to use the Group's virtual reality contents and the performance obligation is satisfied at a point in time at which the licence is granted of.

(v) Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

(vi) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(vii) Income arising from broadcasting movies and TV dramas are recognised in accordance with the terms and substances of the relevant agreements, and at point in time when (1) the Group's right to the payment is reasonably certain with no further obligation; and (2) the amount the Group is entitled to receive can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only passage of time is required before payment of that consideration is due.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. A contract liability is recognised when the payment is made or the payment is due (whichever is earlier) before the Group transfers goods or services to the customer. Contract liabilities are recognised as revenue when the Group performs under the contract.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable and are recognised as other revenue, rather than reducing the related expense.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Given Covid-19 pandemic has created and may continue to create significant uncertainty in macroeconomic conditions, actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision effects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In addition to information disclosed elsewhere in the Group's consolidated financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Estimates and judgements (continued)

Impairment of non-financial assets (including goodwill)

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing:

(i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence;

(ii) whether the carrying value of an asset or a CGU can be supported by the recoverable amount of the CGU, which is the higher of fair value less costs of disposal and value-in-use of the CGU. The value-in-use calculation is based on the net present value of future cash flows which are estimated based upon the continued use of the asset or CGU, or derecognition; and

(iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Deferred tax

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are set out in note 11(b).

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Estimates and judgements (continued)

Provision for ECLs on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the sectors in which the Group operates the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances. The Group's historical credit loss experience may also not be representative of customer's actual default in the future.

The economic downturn and uncertainties that have arisen as a result of Covid-19 pandemic have made these estimates more judgemental, which the Group has taken into account in its determination of applicable expected credit losses. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in notes 19, 20(a) and 41(a) to the financial statements.

Impairment of other financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history existing market conditions as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in note 41(a).

Incremental borrowing rate on lease agreements

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses incremental borrowing rates ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when it needs to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Estimates and judgements (continued)

Useful lives of property, plant and equipment, right-of-use assets and intangible assets

The Group estimates the useful lives of property, plant and equipment, right-of-use assets and intangible assets in order to determine the amount of depreciation and amortisation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service outputs of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

Fair value measurements

A number of assets and liabilities included in the Group's consolidated financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

Level 1: Quoted prices in active markets for identical items (unadjusted);

Level 2: Observable direct or indirect inputs other than Level 1 inputs; and

Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period as they occur.

The Group measures fair value of financial asset measured at FVOCI and the Group's retained interests in associates at disposal date as detailed in notes 18, 31 and 42(b).

6. REVENUE AND SEGMENT REPORTING

An analysis of the Group's revenue from its principal activities for the year is as follows:

	2020 HK$'000	2019 HK$'000 (Re-presented)
Continuing operations		
Revenue from contracts with customer within the scope of HKFRS 15:		
Provision of		
– visual effects production service	503,713	469,807
– post production service	40,886	21,704
– 360 degree digital capture technology application and virtual reality services	49,140	56,548
– granting of licence for virtual reality contents	7,562	–
	601,301	548,059
Revenue from other sources		
Rental income	–	66
	601,301	548,125
Discontinued operation		
Revenue from contracts with customer within the scope of HKFRS 15:		
Provision of sales of hardware and solution services	3,022	77,321

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

Disaggregation of revenue from contracts with customers

Segment	Media entertainment 2020 HK$'000	2019 HK$'000 (Re-presented)
Types of goods or service		
Provision of		
– visual effects production service	503,713	469,807
– post production service	40,886	21,704
– 360 degree digital capture technology application and virtual reality services	49,140	56,548
– granting of licence for virtual reality contents	7,562	–
Total revenue from contracts with customers (continuing operations)	601,301	548,059
Total revenue from contracts with customers (discontinued operation)		
Provision of sales of hardware and solution services	3,022	77,321
Geographical markets		
Hong Kong (place of domicile)	2,907	912
The People's Republic of China (the "PRC")	66,267	94,227
The United States of America ("USA")	203,697	222,312
Canada	317,962	220,145
United Kingdom	5,073	2,981
Other countries/regions	5,395	7,482
Total revenue from contracts with customers (continuing operations)	601,301	548,059
Total revenue from contracts with customers (discontinued operation)		
The PRC	3,022	77,321
Timing of revenue recognition		
A point in time	8,107	54,803
Over time	593,194	493,256
Total revenue from contracts with customers (continuing operations)	601,301	548,059
Total revenue from contracts with customers (discontinued operation)		
A point in time	3,022	77,321

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

(a) Reportable segment

The Group determines its operating segment based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions. The Group has only one operating and reportable segment.

During the year, the operation for sale of hardware and solution services was discontinued upon the partial disposal of Lead Turbo Limited and its subsidiaries (collectively the "Lead Turbo Group"). The partial disposal by the Group resulted in loss of control of the Lead Turbo Group by the Group. The Group accounts for the retained interests in the Lead Turbo Group as interests in associates (refer to note 31). The following summary describes the operations in the Group's only reportable segment, media entertainment segment:

Continuing operations

– provision of visual effects production service, post production service, 360 degree digital capture technology application and virtual reality services, and granting of licence for virtual reality contents

Discontinued operation

– provision of sales of hardware and solution services

Management monitors the results of its operating segment for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment loss, which is a measure of adjusted loss before taxation. The adjusted loss before taxation is measured consistently with the Group's loss before taxation, except that, reversal/recognition of impairment loss on trade receivables and contract assets, impairment loss on other receivables, impairment loss on amounts due from associates, loss on disposal of unallocated property, plant and equipment, fair value gains on investment properties, share of losses of associates, auditor's remuneration, depreciation of unallocated property, plant and equipment, depreciation of unallocated right-of-use assets and amortisation of unallocated intangible assets, professional fees, finance costs, equity-settled share-based payment expenses, unallocated short-term lease expenses, gain on disposal of subsidiaries, unallocated other income and gains (including royalty income, interest income and sundry income), as well as head office and corporate expenses, are excluded from such measurement.

Segment assets exclude unallocated bank balances and cash, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude tax payable, deferred tax liabilities, unallocated borrowings and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

(a) Reportable segments (continued)

	Media entertainment					
	Continuing operations		Discontinued operation		Total	
	2020 HK$'000	2019 HK$'000 (Re-presented)	2020 HK$'000	2019 HK$'000 (Re-presented)	2020 HK$'000	2019 HK$'000 (Re-presented)
Revenue from external customers and reportable segment revenue	601,301	548,059	3,022	77,321	604,323	625,380
Reportable segment loss	(518,676)	(277,867)	(29,841)	(18,621)	(548,517)	(296,488)
Additions to non-current assets	152,036	80,553	7,488	68,139	159,524	148,692
Depreciation and amortisation	(86,454)	(78,571)	(30,371)	(54,770)	(116,825)	(133,341)
Impairment loss on goodwill	(305,119)	(74,419)	–	–	(305,119)	(74,419)
Gain on disposal of intangible assets	–	–	–	2,735	–	2,735
Gain on disposal of property, plant and equipment	357	–	–	–	357	–
Taxation credited/(charged)	229	(1,350)	4,217	4,064	4,446	2,714
Reportable segment assets	1,077,263	1,339,121	–	438,937	1,077,263	1,778,058
Reportable segment liabilities	556,815	553,442	–	32,586	556,815	586,028

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Reconciliation of reportable segment profit or loss, assets and liabilities

	2020 HK$'000	2019 HK$'000 (Re-presented)
Loss before taxation		
Segment loss from continuing operations	(518,676)	(277,867)
Segment loss from discontinued operation	(29,841)	(18,621)
	(548,517)	(296,488)
Reversal/(recognition) of impairment loss on trade receivables and contract assets	900	(5,244)
Impairment loss on other receivables	(1,687)	(7,377)
Impairment loss on amounts due from associates	(36,365)	(77,768)
Loss on disposal of unallocated property, plant and equipment	(83)	(2,073)
Fair value gains on investment properties	–	700
Share of losses of associates	(10,554)	(21,988)
Auditor's remuneration	(1,972)	(2,093)
Depreciation of unallocated property, plant and equipment, depreciation of unallocated right-of-use assets and amortisation of unallocated intangible assets	(44,925)	(51,952)
Professional fees	(21,770)	(27,741)
Finance costs	(29,276)	(79,046)
Equity-settled share-based payment expenses	(7,943)	(5,113)
Unallocated short-term lease expenses	(466)	–
Gain on disposal of subsidiaries	–	111,999
Unallocated other income and gains	132,327	130,874
Other unallocated corporate expenses*	(60,618)	(88,983)
Consolidated loss before taxation	(630,949)	(422,293)
Assets		
Reportable segment assets	1,077,263	1,778,058
Unallocated bank balances and cash	74,682	212,906
Unallocated corporate assets	345,305	184,086
Consolidated total assets	1,497,250	2,175,050
Liabilities		
Reportable segment liabilities	556,815	586,028
Tax payable	5,225	5,073
Deferred tax liabilities	46,498	63,795
Unallocated borrowings	4,909	4,909
Unallocated corporate liabilities	70,932	38,050
Consolidated total liabilities	684,379	697,855

* The balance mainly represented unallocated corporate operating expenses that are not allocated to operating segments, including directors' remuneration, staff cost and other head office expenses.

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

(c) Geographic information

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets ("Specified Non-current Assets").

(i) Revenue from external customers

	2020 HK$'000	2019 HK$'000 (Re-presented)
Continuing operations		
Hong Kong (place of domicile)	2,907	978
The PRC	66,267	94,227
USA	203,697	222,312
Canada	317,962	220,145
United Kingdom	5,073	2,981
Other countries/regions	5,395	7,482
	601,301	548,125

	2020 HK$'000	2019 HK$'000 (Re-presented)
Discontinued operation		
The PRC	3,022	77,321

The information of revenue from the above is based on the location of customers.

(ii) Specified Non-current Assets

	2020 HK$'000	2019 HK$'000
Hong Kong (place of domicile)	12,830	72,386
The PRC	388,252	571,598
Other regions of Asia	10,103	13,632
USA and Canada	754,887	973,154
	1,166,072	1,630,770

The information of Specified Non-current Assets from the above is based on the location of assets.

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

(d) Major customers

The Group's customer base is diversified and there were 2 customers (2019: Nil) from the media entertainment segment with whom transactions have exceeded 10% of the Group's total revenue as follows:

	2020 HK$'000	2019 HK$'000
Customer A	116,390	N/A
Customer B	67,931	N/A

(e) Revenue

The following table provides information about trade receivables, contract assets and contract liabilities from contracts with customers.

	2020 HK$'000	2019 HK$'000
Trade receivables	40,798	46,678
Contract assets	17,802	13,170
Contract liabilities	44,902	66,873

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on revenue related to the provisions of visual effects production service. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group provides the invoice to the customer.

The contract liabilities mainly relate to the advance consideration received from customers.

The Group has applied the practical expedient to its sales contracts for media entertainment services and therefore the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for media entertainment services that had an original expected duration of one year or less.

7. OTHER INCOME AND GAINS

	2020 HK$'000	2019 HK$'000 (Re-presented)
Continuing operations		
Income arising from broadcasting movies and TV dramas	62,393	74,178
Interest income	4,848	8,378
Imputed interest on consideration receivables	777	–
Covid-19-related rent concessions	813	–
Change in fair value of contingent consideration payable *(Note 42(b))*	–	41,396
Government subsidies *(Note)*	63,118	413
Service income from development of intellectual property	7,000	–
Sponsorship received for certain research and development projects	2,715	–
Effect of lease modification	431	–
Others	4,853	54
	146,948	124,419

	2020 HK$'000	2019 HK$'000 (Re-presented)
Discontinued operation		
Interest income	29	90
Government subsidies *(Note)*	608	4,658
Others	1,353	3,735
	1,990	8,483

Note:

There are no unfulfilled conditions or other contingencies attaching to these grants, all government subsidies have been received during the year. The Group did not benefit directly from any other forms of government assistance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

8. LOSS FOR THE YEAR

	2020 HK$'000	2019 HK$'000 (Re-presented)
Continuing operations		
This is arrived at after charging/(crediting):		
Cost of sales and services rendered *(Note)*	536,571	469,043
(Gain)/loss on disposal of property, plant and equipment	(274)	2,073
Exchange differences, net	(7,024)	(1,427)
Auditor's remuneration:		
– audit services	1,775	1,853
– non-audit services	197	240
Depreciation of property, plant and equipment *(Note)*	28,850	28,369
Depreciation of right-of-use assets *(Note)*	40,976	47,549
Amortisation of intangible assets *(Note)*	61,553	54,605
Short-term lease expenses	552	310
Staff costs *(Note)*:		
– Directors' remuneration	7,914	14,782
– Other staff costs:		
Salaries, wages and other benefits	602,666	553,531
Retirement benefit scheme contributions	5,999	3,412
Equity-settled share-based payment expenses	7,943	5,113
Total staff costs	624,522	576,838

Note:

Cost of sales and services rendered include HK$468,354,000 (2019: HK$394,640,000 (re-presented)) relating to staff costs, depreciation of property, plant and equipment, depreciation of right-of-use assets and amortisation of intangible assets, for which the amounts are also included in the respective total amounts disclosed separately above.

8. LOSS FOR THE YEAR (CONTINUED)

Discontinued operation

On 17 July 2020, the Group entered into a sale and purchase agreement with an independent purchaser in connection with the disposal of 22.29% equity interest of the Lead Turbo Group. Further details were set out in note 31. The disposal was completed on 31 July 2020, the date on which the control of the Lead Turbo Group was lost. Revenue, results and cash flows of the Lead Turbo Group were as follows:

	Period from 1 January 2020 to 31 July 2020 HK$'000	**Year ended 31 December 2019** HK$'000
Revenue	3,022	77,321
Expenses	(41,963)	(95,942)
Loss before gain on disposal of discontinued operation and taxation	(38,941)	(18,621)
Gain on disposal of discontinued operation	9,100	–
Loss before taxation from the discontinued operation	(29,841)	(18,621)
Taxation	4,217	4,064
Loss for the year from discontinued operation	(25,624)	(14,557)
Operating cash outflows	(13,612)	(26,174)
Investing cash outflows	(1,026)	(17,801)
Financing cash inflows	–	48,610
Total cash (outflows)/inflows	(14,638)	4,635

The carrying amounts of the assets and liabilities of the Lead Turbo Group at the date of disposal are disclosed in note 31 to the financial statements.

A profit of HK$9,100,000 arose on disposal of the Lead Turbo Group, being the proceeds of disposal and the fair value of the Group's retained interests, less the carrying amount of the subsidiary's net assets attributable to the Group, foreign exchange reserve and attributable goodwill. No tax charge or credit arose from the disposal.

For the purpose of presenting discontinued operation, the comparative consolidated income statement, consolidated statement of comprehensive income and the related notes have been re-presented as if the operations discontinued during the year had been discontinued at the beginning of the comparative period.

9. FINANCE COSTS

	2020 HK$'000	2019 HK$'000 (Re-presented)
Continuing operations		
Imputed interest on:		
Lease liabilities	14,362	16,345
Contingent consideration payable	158	3,530
Interest on:		
Bank and other loans	14,697	57,928
Secured note	–	688
	29,217	78,491

	2020 HK$'000	2019 HK$'000 (Re-presented)
Discontinued operation		
Imputed interest on:		
Lease liabilities	59	555

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration is analysed as follows:

	2020 HK$'000	2019 HK$'000
Fees:		
Independent non-executive directors	1,682	2,035
Other emoluments paid to executive directors:		
Salaries and other benefits	6,214	12,729
Retirement benefit scheme contributions	18	18
	6,232	12,747
	7,914	14,782

No directors waived any remuneration in respect of the years ended 31 December 2020 and 2019.

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

	2020 HK$'000	2019 HK$'000
Peter Chou (Resigned on 4 June 2020)		
– Salaries and other benefits	2,687	8,344
Seah Ang		
– Salaries and other benefits	3,527	3,535
– Retirement benefit scheme contributions	18	18
	3,545	3,553
Amit Chopra (Resigned on 24 May 2019)		
– Salaries and other benefits	–	600
Wei Ming (Resigned on 24 May 2019)		
– Salaries and other benefits	–	250
John Alexander Lagerling (Resigned on 1 May 2020)		
– Fee	518	1,567
Lau Cheong		
– Fee	156	156
Duan Xiongfei		
– Fee	156	156
Wong Ka Kong, Adam		
– Fee	156	156
Elizabeth Monk Daley (Appointed on 20 July 2020)		
– Fee	696	–

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

Five highest paid employees

The five highest paid individuals of the Group did not include any directors of the Company (2019: include one executive director of the Company, details of whose remuneration are set out above). The remuneration of the five (2019: remaining four) highest paid employees, other than the Directors, is as follows:

	2020 HK$'000	2019 HK$'000
Salaries and other benefits	18,420	15,886
Recognition of equity-settled share-based payment expenses	1,026	4,968
Retirement benefit scheme contributions	36	36
	19,482	20,890

The number of non-director, highest paid employees whose remuneration fell within the following bands, is as follows:

	2020	2019
HK$3,500,001 to HK$4,000,000	2	–
HK$4,000,001 to HK$4,500,000	3	1
HK$4,500,001 to HK$5,000,000	–	1
HK$6,000,001 to HK$6,500,000	–	2

11. TAXATION

(a) Taxation (credited)/charged to the consolidated income statement represents:

	Note	2020 HK$'000	2019 HK$'000 (Re-presented)
Continuing operations			
Current taxation – Hong Kong profits tax		–	–
Current taxation – Overseas tax			
– provision for the year		587	3,810
– over-provision in respect of prior years		–	(1,607)
Deferred taxation	*11(b)*	(816)	(853)
		(229)	1,350

	Note	2020 HK$'000	2019 HK$'000 (Re-presented)
Discontinued operation			
Current taxation – Hong Kong profits tax		–	–
Current taxation – Overseas tax			
– provision for the year		–	87
– over-provision in respect of prior years		(85)	–
Deferred taxation	*11(b)*	(4,132)	(4,151)
		(4,217)	(4,064)

No provision for Hong Kong profits tax was made for the year ended 31 December 2020 as the Group had estimated tax losses brought forward to offset against the estimated assessable profits. No provision for Hong Kong profit tax has been made as the Group did not have any assessable profits for the year ended 31 December 2019.

Taxation on overseas profits has been calculated on the estimated assessable profits for the years at the rates of taxation prevailing in the countries in which the Group operates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

11. TAXATION (CONTINUED)

(a) Taxation (credited)/charged to the consolidated income statement represents: (continued)

Taxation for the years can be reconciled to accounting loss as follows:

	2020 HK$'000	2019 HK$'000 (Re-presented)
Continuing operations		
Loss before taxation	(601,108)	(403,672)
Taxation calculated at applicable rates of Hong Kong profit tax	(99,183)	(66,606)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(9,796)	(14,059)
Tax effect of expenses not deductible for tax purposes	71,117	35,676
Tax effect of income not assessable for tax purposes	(11,355)	(18,589)
Tax effect of utilisation of previously unrecognised tax losses and other deductible temporary differences	(5,225)	(2,356)
Tax effect of unrecognised tax losses and temporary differences	54,213	68,891
Over-provision in respect of prior years	–	(1,607)
Taxation for the year	(229)	1,350

	2020 HK$'000	2019 HK$'000 (Re-presented)
Discontinued operation		
Loss before taxation	(29,841)	(18,621)
Taxation calculated at applicable rates of Hong Kong profit tax	(4,924)	(3,072)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(2,138)	349
Tax effect of expenses not deductible for tax purposes	–	564
Tax effect of income not assessable for tax purposes	(381)	(260)
Tax effect of utilisation of previously unrecognised tax losses and other deductible temporary differences	(1,516)	(4,759)
Tax effect of unrecognised tax losses and temporary differences	4,827	3,114
Over-provision in respect of prior years	(85)	–
Taxation for the year	(4,217)	(4,064)

11. TAXATION (CONTINUED)

(b) Deferred taxation

The movements in the components of deferred tax (liabilities)/assets recognised by the Group during the current and prior years are as follows:

	Notes	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Fair value arising from business combination HK$'000	Total HK$'000
As at 1 January 2019		(6,737)	6,618	(66,502)	(66,621)
Disposal of subsidiaries		6,293	(6,293)	–	–
Credited to profit or loss for the year	*11(a)*	204	93	4,707	5,004
Exchange realignment		(2)	–	(2,000)	(2,002)
As at 31 December 2019		(242)	418	(63,795)	(63,619)
Disposal of subsidiaries	*31*	–	(2,295)	15,563	13,268
Credited to profit or loss for the year	*11(a)*	688	1,861	2,399	4,948
Exchange realignment		(1)	16	(665)	(650)
As at 31 December 2020		445	–	(46,498)	(46,053)

For the purpose of presentation in consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of deferred tax balances for financial reporting purposes:

	2020 HK$'000	2019 HK$'000
Deferred tax liabilities	(46,498)	(63,795)
Deferred tax assets	445	176
	(46,053)	(63,619)

At the end of reporting period, the Group had unused tax losses of HK$1,406,009,000 (2019: HK$1,439,366,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses (2019: A deferred tax asset has been recognised in respect of HK$879,000 of such losses and no deferred tax asset has been recognised in respect of the remaining HK$1,438,487,000) due to the unpredictability of future profit streams. As at 31 December 2020, included in unrecognised tax losses are losses of HK$200,726,000 (2019: HK$235,557,000), HK$8,297,000 (2019: HK$2,243,000), nil (2019: HK$4,580,000) and HK$1,064,211,000 (2019: HK$1,063,002,000) that will expire in 5 years, 8 years, 10 years and 20 years, respectively, from the respective dates of incurrence.

12. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	2020 HK$'000	2019 HK$'000 (Re-presented)
Continuing operations		
Loss for the year attributable to owners of the Company from continuing operations for the purpose of basic loss per share	(584,205)	(391,077)
Discontinued operation		
Loss for the year attributable to owners of the Company from discontinued operation for the purpose of basic loss per share	(14,322)	(9,736)

	2020	2019 (Re-presented)
Number of share		
Weighted average number of ordinary shares for the purposes of basic loss per share, adjusted for bonus elements in the issue of shares through share subscription on 12 April 2019, 25 July 2019 and 18 January 2021 *(Note)*	36,254,560,267	34,005,935,656

Note: The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for the bonus elements of share subscriptions after the end of the reporting period.

For the years ended 31 December 2020 and 2019, since the share options outstanding had an anti-dilutive effect on the basic loss per share, the exercise of outstanding share options were not assumed in the computation of diluted loss per share.

Except for the above, there is no other dilutive potential share during the current and prior years. Therefore, the basic and diluted loss per share in the current and prior years are equal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

13. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment HK$'000	Machineries HK$'000	Construction in progress HK$'000	Total HK$'000
COST				
As at 1 January 2019	230,321	5,292	936	236,549
Additions from business combination *(Note 30)*	14	–	–	14
Additions	26,004	359	–	26,363
Disposals	(3,905)	–	–	(3,905)
Disposal of subsidiaries *(Note 32(a))*	(23,955)	–	–	(23,955)
Exchange realignment	377	23	(5)	395
As at 31 December 2019 and 1 January 2020	228,856	5,674	931	235,461
Additions	36,096	616	–	36,712
Disposals	(4,002)	–	–	(4,002)
Disposal of subsidiaries *(Note 31)*	(9,843)	–	–	(9,843)
Exchange realignment	3,126	138	(5)	3,259
As at 31 December 2020	254,233	6,428	926	261,587
ACCUMULATED DEPRECIATION				
As at 1 January 2019	146,310	4,360	–	150,670
Depreciation charge for the year	29,828	561	–	30,389
Disposals	(1,832)	–	–	(1,832)
Disposal of subsidiaries *(Note 32(a))*	(16,632)	–	–	(16,632)
Exchange realignment	833	31	–	864
As at 31 December 2019 and 1 January 2020	158,507	4,952	–	163,459
Depreciation charge for the year	29,548	385	–	29,933
Disposals	(3,715)	–	–	(3,715)
Disposal of subsidiaries *(Note 31)*	(4,984)	–	–	(4,984)
Exchange realignment	1,315	102	–	1,417
As at 31 December 2020	180,671	5,439	–	186,110
NET CARRYING AMOUNT				
As at 31 December 2020	73,562	989	926	75,477
As at 31 December 2019	70,349	722	931	72,002

14. LEASES

Nature of leasing activities (as lessee)

The Group leases a number of properties in the jurisdictions from which it operates. In some jurisdictions property leases the periodic rent is fixed over the lease term.

The Group also leases certain items of equipment. In some contracts for services with distributors, those contracts contain a leases of equipment comprise only fixed payments over the lease terms. Leases of buildings generally have lease terms between 2 and 10 years, while equipment generally have lease terms between 2 and 3 years.

None of the lease contracts entered by the Group contains a variable lease payments scheme.

Extension options are included in certain property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension options held are exercisable only by the Group and not by the respective lessor.

The Group reassessed and concluded that it was not reasonably certain to exercise these extension option. As a result, lease liabilities from the extension period were not included in the lease liabilities of the Group at reporting date. An additional cash outflow of HK$20,775,000 (2019: HK$21,382,000) was estimated if all the extension options were exercised.

RIGHT-OF-USE ASSETS

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Buildings HK$'000	**Equipment** HK$'000	**Total** HK$'000
As at 1 January 2019	120,144	21,231	141,375
Additions	37,428	4,892	42,320
Depreciation charge	(34,418)	(16,166)	(50,584)
Exchange realignment	(306)	(56)	(362)
As at 31 December 2019 and 1 January 2020	122,848	9,901	132,749
Additions	964	–	964
Depreciation charge	(35,745)	(6,938)	(42,683)
Effect of lease modification	(2,258)	–	(2,258)
Disposal of subsidiaries *(Note 31)*	(491)	–	(491)
Exchange realignment	151	(17)	134
As at 31 December 2020	85,469	2,946	88,415

Please refer to note 4 "Leases" for estimated useful life of right-of-use assets.

14. LEASES (CONTINUED)

LEASE LIABILITIES

	HK$'000
As at 1 January 2019	168,101
Additions	42,320
Interest expense	16,900
Lease payments	(62,255)
Foreign exchange movements	(417)
As at 31 December 2019 and 1 January 2020	164,649
Additions	963
Interest expense	14,421
Covid-19-related rent concessions	(813)
Disposal of subsidiaries *(Note 31)*	(528)
Lease payments	(60,749)
Effect of lease modification	(2,689)
Foreign exchange movements	(666)
As at 31 December 2020	114,588

As disclosed in note 2(a), the Group has elected to apply the practical expedient introduced by the amendment to HKFRS 16 to all rent concessions that satisfy the criteria. All of the rent concessions granted to the Group during the year ended 31 December 2020 satisfy the criteria to apply the practical expedient. The application of the practical expedient has resulted in the reduction of total lease liabilities of HK$813,000. The effect of this reduction has been recorded in profit or loss in the period in which the event or condition that triggers those payments occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

14. LEASES (CONTINUED)

LEASE LIABILITIES (continued)

Future lease payments are due as follows:

As at 31 December 2020

	Minimum lease payments HK$'000	Interest HK$'000	Present value HK$'000
Not later than one year	47,348	9,980	37,368
Later than one year and not later than two years	33,494	7,058	26,436
Later than two years and not later than five years	47,385	12,450	34,935
Later than five years	17,166	1,317	15,849
	145,393	30,805	114,588

As at 31 December 2019

	Minimum lease payments HK$'000	Interest HK$'000	Present value HK$'000
Not later than one year	63,437	13,765	49,672
Later than one year and not later than two years	50,355	10,090	40,265
Later than two years and not later than five years	62,508	16,870	45,638
Later than five years	33,008	3,934	29,074
	209,308	44,659	164,649

The present value of future lease payments are analysed as follows:

	2020 HK$'000	2019 HK$'000
Current liabilities	37,368	49,672
Non-current liabilities	77,220	114,977
	114,588	164,649

The total cash outflow for leases for the year ended 31 December 2020 was HK$61,405,000 (2019: HK$63,855,000).

15. INTANGIBLE ASSETS

	Goodwill	Trademarks	Proprietary software	Participation rights	Patents	Virtual human know-how	Backlog contracts	Licences for intellectual property rights	Other licences	Film rights	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(Note (a))	*(Note (b))*	*(Note (c))*	*(Note (d))*	*(Note (e))*	*(Note (f))*	*(Note (g))*	*(Note (h))*	*(Note (i))*	*(Note (j))*	
COST											
As at 1 January 2019	854,831	147,739	164,998	383,112	294,400	31,446	18,178	26,082	2,198	–	1,922,984
Additions	–	–	33,628	–	11,243	–	–	–	16,524	–	61,395
Additions from business combination *(Note 30)*	30,484	–	1,211	–	–	–	–	–	–	–	31,695
Disposal	–	–	–	–	(1,196)	–	–	–	–	–	(1,196)
Disposal of subsidiaries *(Note 32)*	–	–	–	–	–	(31,446)	–	(22,000)	–	–	(53,446)
Write off	–	–	–	–	–	–	–	(4,082)	(860)	–	(4,942)
Exchange realignment	(363)	5,627	531	(1,349)	2,000	–	–	–	(21)	–	6,425
As at 31 December 2019 and 1 January 2020	884,952	153,366	200,368	381,763	306,447	–	18,178	–	17,841	–	1,962,915
Additions	–	–	19,826	–	283	–	–	8,470	3,767	94,355	126,701
Disposal of subsidiaries *(Note 31)*	(195,193)	–	(14,320)	–	(200,256)	–	(18,178)	–	(21,486)	–	(449,433)
Exchange realignment	(174)	1,904	(31)	(1,283)	608	–	–	–	(122)	–	902
As at 31 December 2020	689,585	155,270	205,843	380,480	107,082	–	–	8,470	–	94,355	1,641,085
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS											
As at 1 January 2019	–	–	96,478	301,199	34,437	10,151	7,574	11,206	1,086	–	462,131
Amortisation for the year	–	–	6,751	44,857	38,038	273	9,089	781	4,531	–	104,320
Impairment for the year	74,419	–	–	–	–	–	–	–	–	–	74,419
Disposal	–	–	–	–	(202)	–	–	–	–	–	(202)
Disposal of subsidiaries *(Note 32)*	–	–	–	–	–	(10,424)	–	(7,905)	–	–	(18,329)
Write off	–	–	–	–	–	–	–	(4,082)	(860)	–	(4,942)
Exchange realignment	–	–	(100)	(1,350)	991	–	–	–	(65)	–	(524)
As at 31 December 2019 and 1 January 2020	74,419	–	103,129	344,706	73,264	–	16,663	–	4,692	–	616,873
Amortisation for the year	–	–	13,103	37,057	24,859	–	1,514	7,809	4,792	–	89,134
Impairment for the year	305,119	–	–	–	–	–	–	–	–	–	305,119
Disposal of subsidiaries *(Note 31)*	–	–	(5,290)	–	(72,443)	–	(18,177)	–	(9,484)	–	(105,394)
Exchange realignment	–	–	(174)	(1,283)	(220)	–	–	–	–	–	(1,677)
As at 31 December 2020	379,538	–	110,768	380,480	25,460	–	–	7,809	–	–	904,055
CARRYING AMOUNT											
As at 31 December 2020	310,047	155,270	95,075	–	81,622	–	–	661	–	94,355	737,030
As at 31 December 2019	810,533	153,366	97,239	37,057	233,183	–	1,515	–	13,149	–	1,346,042

15. INTANGIBLE ASSETS (CONTINUED)

Notes:

(a) For the purpose of impairment testing, goodwill is allocated to CGUs identified as follows:

	2020 HK$'000	2019 HK$'000
Visual effects production service	208,691	208,863
Post production service	85,186	85,186
360 degree digital capture technology application	16,170	321,291
Sales of hardware and solution service	–	195,193
	310,047	810,533

The recoverable amounts of the CGUs have been determined by the Directors on the basis of value-in-use calculations with reference to professional valuation reports issued by Knight Frank Asset Appraisal Limited ("KF"), an independent firm of professionally qualified valuers.

The value-in-use calculations for CGUs used cash flows projections based on latest financial budgets approved by the Group's management covering a period of 5 years, which is consistent with the cash flows projections period in 2019, except for the 360 degree digital capture technology application CGU.

In 2019, the value-in-use for 360 degree digital capture technology application CGU was calculated using a cash flow projection based on a financial budgets covering a longer period of 7 years because the management considered the technology for this CGU was relatively new to the media industry, the development of the technology and related products required longer time (i) to crystalise its value (compared to the use of other relatively more mature technologies of the Group) and to be integrated with the Group's technologies (e.g. virtual reality technology) to create synergistic value to the Group; and (ii) for the operations of this CGU to stabilise.

During the year, the outbreak of Covid-19 impacted the global economic environment and increased the uncertainty of future cash flows that could be generated by this CGU. The management did not think they could justify a cash flows projection cover a period longer than 5 years. Consequently, the projection period of 5 years was adopted.

The cash flow projections beyond the budget period are extrapolated using a growth rate of 2% to 2.5% (2019: 2% to 2.5%), which do not exceed the long-term growth rates for the industry in the corresponding countries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

15. INTANGIBLE ASSETS (CONTINUED)

Notes: (continued)

(a) (continued)

The key assumptions used for the value-in-use calculations are as follows:

2020	**Visual effects production service CGU**	**Post production service CGU**	**360 degree digital capture technology application CGU**	**Sales of hardware and solution service CGU**
Average revenue growth rate within budget period	19.3%	22.2%	22.5%	N/A
Pre-tax discount rate	17.6%	20.6%	18.0%	N/A
Average gross margin	15.9%	48.9%	36.1%	N/A
Recoverable amount *(HK$'000)*	584,453	178,735	202,925	N/A

2019	**Visual effects production service CGU**	**Post production service CGU**	**360 degree digital capture technology application CGU**	**Sales of hardware and solution service CGU**
Average revenue growth rate within budget period	19.4%	30.1%	31.5%	52.4%
Pre-tax discount rate	17.0%	20.5%	17.8%	19.1%
Average gross margin	16.1%	43.9%	43.8%	36.7%
Recoverable amount *(HK$'000)*	615,869	172,117	586,816	594,250

The pre-tax discount rate and other key assumptions for the value-in-use calculation, as disclosed in the above table, relate to the estimation of cash inflows/outflows which include budgeted service revenue and gross margin. Such estimations are based on the CGUs' past performance and the management's expectations for the market development.

During the year, the global health emergency resulting from the Covid-19 pandemic has led to social distancing requirements and travel restriction measure been introduced in most territories, which has significantly impacted the travel, sports, concerts and other mass events which the 360 digital capture and live streaming services from the 360 degree digital capture technology application CGU is dependent on.

Contracts in the 360 degree digital capture technology application CGU are generally characterised by short period of time between contracts, a significant slowdown in demand of services in Mainland of China, North America and other parts of the world led to the reduction in delivery of projects and the prospects of growth in this CGU. This places intense pressure on the business of 360 degree digital capture technology application CGU and causes an adverse impact on the estimated value-in-use of the 360 degree digital capture technology application CGU.

15. INTANGIBLE ASSETS (CONTINUED)

Notes: (continued)

(a) (continued)

Accordingly, impairment loss on goodwill of HK$305,119,000 for 360 degree digital capture technology application CGU was recognised in profit or loss. (2019: impairment loss on goodwill in the aggregate of HK$57,218,000 for 360 degree digital capture technology application CGU and HK$17,201,000 for post production service CGU was recognised in profit or loss.)

If the budgeted gross margin used in the value-in-use calculation for the 360 degree digital capture technology application CGU had been 2% lower than management's estimates at 31 December 2020 (i.e. 34.1% instead of 36.1%), and this reasonably possible change of 2% reduction in budgeted gross margin represents a reasonably possible reduction in sales price of 0.9% (i.e. revenue growth rate of 21.6% instead of 22.5%), the carrying amount of the CGU would have exceeded its recoverable amount by HK$315,815,000, resulting in an additional impairment loss against the goodwill allocated to 360 degree digital capture technology application CGU by HK$12,615,000.

If the pre-tax discount rate applied to the cash flow projections of this CGU had been 1% higher than management's estimates (i.e. 19.0% instead of 18.0%), the carrying amount of the CGU would have exceeded its recoverable amount by HK$314,910,000, resulting in an additional impairment loss against goodwill for 360 degree digital capture technology application CGU by HK$11,710,000.

The recoverable amounts for the visual effects production service CGU, post production service CGU and 360 degree digital capture technology application CGU are HK$584,453,000, HK$178,735,000 and HK$202,925,000 respectively.

Except as described above, the recoverable amounts in relation to other CGUs determined by value-in-use calculations suggested that there was no impairment in the values of goodwill and other non-financial assets as at 31 December 2020 and 2019. The management was of the opinion that a reasonably possible change in key assumptions for other CGUs on which the management had based its determination of the CGUs' recoverable amount would not cause an impairment loss.

(b) Trademarks were considered as having indefinite useful lives as they are considered renewable at minimal costs. Trademarks will expire between 2021 and 2023. The Directors are of the opinion that the Group would renew the trademarks continuously and has the ability to do so. In the opinion of the Directors, the trademarks can provide continuing economic benefits to the Group taking into account (i) the long-term expected usage of the trademarks by the Group with reference to the history of operations and considering that such trademarks could be managed efficiently by another management team; and (ii) the long product life cycles for the trademarks.

The trademarks are allocated to the Group's visual effects production business and 360 degree digital capture technology CGUs for the purpose of impairment testing, which are outlined as follows:

	2020 HK$000	**2019** HK$000
Visual effects production business	19,382	19,478
360 degree digital capture technology application	135,888	133,888
	155,270	153,366

15. INTANGIBLE ASSETS (CONTINUED)

Notes: (continued)

(c) Proprietary software mainly represented internally developed and purchased software to produce various visual effects.

The proprietary software is allocated to the Group's visual effects production business CGU (2019: visual effects production business CGU and sales of hardware and solution service CGU) for the purpose of impairment testing. As further detailed in note 31 "Disposal of subsidiaries during the year", certain proprietary software has been disposed of during the year.

(d) Participation rights represented the contractual rights to income arising from broadcasting movies and TV dramas.

The participation rights are allocated to CGUs in connection with respective movies and TV dramas involved.

(e) Patents mainly represent certain intellectual properties which are licensed including patents, trademarks and software.

Patents are allocated to the Group's 360 degree digital capture technology application CGU for the purpose of impairment testing. Patents allocated to sales of hardware and solutions CGU was disposed of during the year, as further detailed in note 31 "Disposal of subsidiaries during the year".

(f) Virtual human know-how represented the capitalised costs incurred directly attributable to the development of the virtual human and holograms of a well-known deceased singer.

The know-how was allocated to the CGU on virtual human and holograms which has been disposed of in the prior year.

(g) Backlog contracts represent revenue the Group expects to realise for sales of hardware and solution to be performed from existing signed contracts.

The backlog contracts are allocated to the Group's CGU in connection with sales of hardware and solution services which has been disposed of during the year, as further detailed in note 31 "Disposal of subsidiaries during the year".

(h) Licences for intellectual property rights granted to the Group include (i) an exclusive right of development, exploitation, production, publishing and distribution of the works of virtual human and holograms of a well-known deceased singer using three-dimensional technology and exploitation of these works in the entertainment business, which were allocated to the CGU on virtual human and holograms which has been disposed of in the prior year; and (ii) a right of development, sale/distribution and promotion of digital articles of merchandise (such as 360 degree video, interactive virtual reality, augmented reality environment experience, and similar immersive media content) incorporating the licensed material, which were allocated to the CGU on 360 degree digital capture technology application.

(i) Other licences represent the technology licences leased from third parties, which are amortised over the terms of the relevant licensing agreements.

(j) Film rights represent films produced or films production in progress by the Group. As at 31 December 2020, there is a film that was in production but no other produced film. Accordingly, no amortisation was recognised during the year. The film is internally produced by the Group, and the Group is subject to all retained profit generated from the film right, after shared by producers and other independent parties by certain percentage mentioned in the agreements between the Group and the other parties. The film is expected to be wide released in 2021, and upon the release, amortisation of the capitalised production costs will commence over the best estimate of its useful life.

16. INTERESTS IN ASSOCIATES

	2020 HK$'000	**2019** HK$'000
Share of net assets	173,300	–
Amounts due from associates *(Note)*	205,937	157,741
	379,237	157,741
Less: Accumulated impairment loss on amounts due from associates	(114,133)	(77,768)
	265,104	79,973

The Group's interests in associates are accounted for using the equity method in the consolidated financial statements.

Note:

The amounts due from associates are unsecured, interest-free and repayable on demand. In the opinion of the Directors, these amounts due from associates are unlikely to be repaid in the foreseeable future and are considered as long-term interests in associates, which are part of the Group's net investments in the associates.

Management reassessed the ECL of amounts due from associates at the reporting date. Impairment loss on amounts due from associates of HK$36,365,000 (2019: HK$77,768,000), including share of losses of HK$11,377,000 (2019: HK$21,988,000) recognised in excess of investments in associates, were recognised for the year.

16. INTERESTS IN ASSOCIATES (CONTINUED)

Details of the Group's material associates are as follows.

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Effective equity interest attributable to the Group as at 31 December 2020 and 2019	Principal activity
Lead Turbo Limited	Incorporated	The British Virgin Islands	US$10,000	44.59% (2019: 66.88%)	Investment holdings
VR Technology (HK) Limited[1]	Incorporated	Hong Kong	HK$10,000	44.59% (2019: 66.88%)	Investment holdings
深圳市虛擬現實技術有限公司[1,2]	Incorporated	The PRC	RMB153,895	40% (2019: 60%)	VR hardware and solution services
深圳市虛擬現實科技有限公司[1,2]	Incorporated	The PRC	RMB10,000,000	40% (2019: 60%)	VR hardware and solution services
深圳市維爾信息科技有限公司[1,2]	Incorporated	The PRC	RMB20,000,000	40% (2019: 60%)	Online platform for VR solutions and services
Digital Domain Virtual Human Group Limited	Incorporated	The British Virgin Islands	US$1	30% (2019: 30%)	Investment holdings
Digital Domain (Taiwan) Company Limited[3]	Incorporated	The British Virgin Islands/ Hong Kong	US$1	30% (2019: 30%)	Investment holdings
Digital Domain Media (AM) Company Limited[3]	Incorporated	Hong Kong	HK$1	30% (2019: 30%)	Virtual human business
虛谷未來科技(北京) 有限公司[3]	Incorporated	The PRC	RMB500,000	30% (2019: 30%)	Virtual human business
DD & TT Company Limited[4]	Incorporated	Hong Kong	HK$55,000,000	18% (2019: 18%)	Holding licence for intellectual property right of a well-known deceased singer
數字王國空間(北京)傳媒科技有限公司	Incorporated	The PRC	RMB5,084,746	34.42% (2019: 34.42%)	VR Theatre

1 These associates are subsidiaries of Lead Turbo Limited. The Lead Turbo Group was partially disposed of by the Group during the year. Details refer to note 31.

2 89.71% equity interest in these associates are indirectly owned by Lead Turbo Limited and hence the Group's effective equity interest in the associates is 40%.

3 These associates are wholly-owned subsidiaries of Digital Domain Virtual Human Group Limited (collectively the "Digital Domain Virtual Human Group").

4 60% equity interest in this associate is held by Digital Domain Virtual Human Group Limited and hence the Group's effective equity interest in the associate is 18%.

16. INTERESTS IN ASSOCIATES (CONTINUED)

The summarised financial information in respect of the Group's material associates below represents amounts shown in the associates' financial statements adjusted by the Group to conform with HKFRSs for equity accounting purposes.

	Lead Turbo Group		Digital Domain Virtual Human Group		數字王國空間(北京)傳媒科技有限公司	
	2020 HK$'000	2019 HK$'000	**2020** HK$'000	2019 HK$'000	**2020** HK$'000	2019 HK$'000
At 31 December						
Non-current assets	430,208	N/A	26,861	34,270	16,205	28,168
Current assets	51,456	N/A	5,599	9,589	33,103	18,741
Non-current liabilities	–	N/A	–	–	–	–
Current liabilities	(86,360)	N/A	(140,004)	(144,190)	(100,281)	(70,573)
Net assets/(liabilities)	395,304	N/A	(107,544)	(100,331)	(50,973)	(23,664)
Non-controlling interest	(6,652)	N/A	6,050	8,421	–	–
Net assets/(liabilities) attributed to owners of the associates	388,652	N/A	(101,494)	(91,910)	(50,973)	(23,664)
Group's share of net assets *(Note)*	173,300	N/A	–	–	–	–
Amounts due from associates, net of impairment	33,702	N/A	34,456	55,498	23,646	24,475
	207,002	N/A	34,456	55,498	23,646	24,475
Included in the above amounts are:						
Year ended 31 December						
Revenue	21,482^	N/A	504	5,700	17,514	19,967
Loss for the period/year attribute to the owners of the associates	(23,669)^	N/A	(9,790)	(26,818)	(24,521)	(40,508)
Other comprehensive income attributable to the owners of the associates	(4,398)^	N/A	206	–	(2,788)	269
Total comprehensive income attributable to the owners of the associates	(28,067)^	N/A	(9,584)	(26,818)	(27,309)	(40,239)
Group's share of loss	(10,554)	N/A	–	(8,045)	–	(13,943)
Group's share of loss recognised as impairment on the Group's long term interest in associates	–	N/A	(2,937)*	–	(8,440)*	–
Group's share of other comprehensive income	(1,961)	N/A	62	–	(960)	93

^ The amounts disclosed are for the period from 1 August 2020 to 31 December 2020, subsequent to the completion of disposal of Lead Turbo Group for equity accounting purposes.

* The Group recognised share of losses for the year of HK$2,937,000 and HK$8,440,000 on the Group's long-term interests in Digital Domain Virtual Human Group and 數字王國空間(北京)傳媒科技有限公司 respectively, in excess of its investments in these associates.

16. INTERESTS IN ASSOCIATES (CONTINUED)

The carrying amount of the Group's interests in all individually immaterial associates that are accounted for using the equity method, in aggregate, and the aggregate amount of the Group's share of those associates' profit or loss and other comprehensive income, are immaterial.

17. INTEREST IN A JOINT VENTURE

	2020 HK$'000	2019 HK$'000
Share of net assets	46	4
Amount due from a joint venture	–	2,878
	46	2,882
Less: Accumulated impairment loss on amount due from a joint venture	–	(2,878)
	46	4

As at 31 December 2019, the amount due from a joint venture was unsecured, interest-free and not repayable within twelve months after the end of reporting period, and accumulated impairment loss of HK$2,878,000 was recognised.

For the year ended 31 December 2020, write-off of amount due from a joint venture with gross carrying amount of HK$2,878,000 (2019: Nil) resulted in a decrease in loss allowance of HK$2,878,000 (2019: Nil).

Particulars of the material joint venture as at 31 December 2020 are as follows:

Company	Place of incorporation/ registration and business	Form of business structure	Percentage of ownership interest attributable to the Group	Principal activity
Digital Domain IPing (Beijing) Media Technology Company Limited	The PRC	Corporation	50% (2019:50%)	Visual effects production

17. INTEREST IN A JOINT VENTURE (CONTINUED)

The summarised financial information in respect of the Group's material joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements adjusted by the Group to conform with HKFRSs for equity accounting purposes. The joint venture is accounted for using the equity method in the consolidated financial statements.

	Digital Domain IPing (Beijing) Media Technology Company Limited	
	2020 HK$'000	**2019** HK$'000
At 31 December:		
Current assets	1,460	1,375
Non-current assets	–	–
Current liabilities	–	–
Non-current liabilities	–	–
Net assets	1,460	1,375
Group's share of net assets	46	4
Included in the above amounts are:		
Cash and cash equivalents included in current assets	90	85
Year ended 31 December:		
Revenue	–	–
Interest income	–	–
Taxation	–	–
Loss for the year	–	–
Other comprehensive income	85	(25)
Total comprehensive income	85	(25)
Group's share of loss	–	–
Group's share of other comprehensive income	42	(12)

18. FINANCIAL ASSET MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

In 2018, the Group acquired the unlisted equity instrument at the consideration of US$25,000,000 (equivalent to approximately HK$196,213,000). Accumulated fair value adjustment (downside) of HK$196,213,000 had been recognised in other comprehensive income since 2019.

The above investment represents an unlisted equity instrument which is held for medium or long-term strategic purpose. The Group irrevocably designated the investment in equity instrument as at fair value through other comprehensive income on its initial recognition as the Directors believed that this provided a more meaningful presentation for medium or long-term strategic investment, than reflecting changes in fair value immediately in profit or loss.

19. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	2020 HK$'000	2019 HK$'000
Non-current portion:		
Deposits	12,004	12,857
Consideration receivable *(Note (iv))*	32,371	–
	44,375	12,857
Current portion:		
Trade receivables *(Notes (i) and (ii))*	40,798	46,678
Consideration receivable *(Note (iv))*	33,648	–
Other receivables *(Notes (i) and (iii))*	57,433	66,003
Deposits *(Note (i))*	2,750	5,307
Prepayments	20,028	51,686
	154,657	169,674
Total trade receivables, other receivables and prepayment	199,032	182,531

19. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

Notes:

(i) The Directors consider that the carrying amounts of trade receivables, other receivables, and deposits approximate their fair values as at 31 December 2020 and 2019.

(ii) The Group normally allows an average credit period of 30 days (2019: 30 days) to trade customers. The ageing analysis of the Group's trade receivables, net of allowance of impairment losses, based on the invoice date as of the end of reporting period, is as follows:

	2020 HK$'000	**2019** HK$'000
0 to 30 days	17,031	26,347
31 to 60 days	5,702	2,415
61 to 90 days	4,815	5,428
91 to 365 days	10,913	5,159
Over 365 days	2,337	7,329
	40,798	46,678

No interest is charged on trade receivables.

(iii) As at 31 December 2020, included in other receivables is a receivable from an independent third party with gross carrying amount of approximately HK$30,548,000 related to income arising from broadcasting movies and TV dramas. The receivable is unsecured, interest free and repayable on demand.

As at 31 December 2019, included in other receivables from an independent third party is a receivable with gross carrying amount of approximately HK$51,440,000 related to income arising from broadcasting movies and TV dramas. The receivable is unsecured, interest bearing at 12% per annum and repayable in 2020. The amount has been fully settled during the year.

The Directors are of the opinion that, after taking into account the past payment history of the principal and related interest receivables, impairment of the other receivable of HK$6,121,000 (2019: HK$6,725,000) is made at the end of the reporting period.

(iv) The current and non-current portion of consideration receivables represents the carrying amount at the reporting date of 2nd and 3rd instalments of the consideration from disposal of subsidiaries. The amounts are secured by the 22.29% equity interests of the Lead Turbo Group, interest free and repayable on 1st and 2nd anniversary dates of the completion date of the disposal. Details refer to note 31.

20. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2020 HK$'000	2019 HK$'000
Contract assets arising from:		
Visual effects production service	17,802	13,170

Typical payment terms which impact on the amount of contract assets are as follows:

Services of visual effects production

The Group's visual effects production includes payment schedules which require stage payments over the production period. These payment schedules prevent the build-up of significant contract assets.

The timing of recovery or settlement for contract assets as at 31 December 2020 is expected to be within one year.

The Group has applied the practical expedient to its sales contracts and therefore the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts that had an original expected duration of one year or less.

The movements in the loss allowance for impairment of contract assets are as follows:

	2020 HK$'000	2019 HK$'000
At beginning of year	–	1
Recognition/(reversal) of impairment losses	70	(1)
At end of year	70	–

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. The provision rates for the measurement of the ECLs of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade receivables appropriately grouped by similar loss pattern. The calculation reflects the probability weighted outcome, the time value of money, and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecast of future economic conditions.

20. CONTRACT ASSETS AND CONTRACT LIABILITIES (CONTINUED)

(a) Contract assets (continued)

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

	2020 HK$'000	**2019** HK$'000
At 31 December	17,802	13,170
ECL rate	0.39%	0.01%
	HK$'000	HK$'000
Gross carrying amount	17,872	13,170
ECLs	(70)	–
	17,802	13,170

(b) Contract liabilities

	2020 HK$'000	**2019** HK$'000
Contract liabilities arising from:		
Visual effects production service	40,058	66,255
Sales of hardware and solution services	–	618
Granting of licence for virtual reality contents	4,844	–
	44,902	66,873

Typical payment terms which impact on the amount of contract liabilities are as follows:

Visual effects production service, sales of hardware and solution services and granting of licence for virtual reality contents

The Group received non-cancellable payment in advance from customers for services to be provided. Where discrepancies arise between the payments and the Group's assessment of the stage of completion, contract liabilities can arise.

20. CONTRACT ASSETS AND CONTRACT LIABILITIES (CONTINUED)

(b) Contract liabilities (continued)

Movements in contract liabilities

	2020 HK$'000	**2019** HK$'000
Balance as at 1 January	66,873	28,892
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(66,564)	(28,892)
Increase in contract liabilities as a result of billing in advance of visual effects production service, sales of hardware and solution services and granting of licence for virtual reality contents	44,902	66,873
Disposed of through disposal of subsidiaries *(Note 31)*	(309)	–
Balance at 31 December	44,902	66,873

21. BANK BALANCES AND CASH

As at 31 December 2020, included in the bank balances and cash of the Group was an amount of HK$9,968,000 (2019: HK$68,876,000) which is denominated in Renminbi ("RMB"). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

22. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2020 HK$'000	2019 HK$'000
Trade payables	37,943	27,348
Other payables	66,654	25,347
Accruals	71,975	56,126
	176,572	108,821

The Directors consider that the carrying amounts of trade payables, other payables and accruals approximate their fair values as at 31 December 2020 and 2019.

The ageing analysis of the Group's trade payables based on invoice date as of the end of reporting period is as follows:

	2020 HK$'000	2019 HK$'000
0 to 30 days	15,595	7,407
31 to 60 days	8,087	4,248
61 to 90 days	1,327	1,263
91 to 365 days	7,736	4,373
Over 365 days	5,198	10,057
	37,943	27,348

23. BORROWINGS

	2020 HK$'000	2019 HK$'000
Current		
Bank loans due for repayment within one year *(Notes (i)&(ii))*	114,933	32,494
Other loans *(Note (iii))*	39,352	22,376
	154,285	54,870
Non-current		
Bank loans *(Note (i))*	18,932	70,121
Other loans *(Note (iv))*	123,377	149,394
	142,309	219,515
Total borrowings	296,594	274,385
Representing:		
– Bank loans and bank overdrafts	133,865	102,615
– Other loans	162,729	171,770
	296,594	274,385

The Group's borrowings consisted of the following:

(i) As at 31 December 2020, bank loans with principal amount of US$11,000,000 (equivalent to HK$85,282,000) (2019: US$9,000,000 (equivalent to HK$70,121,000)) were secured by bank deposits of the same amount placed in the banks and repayable within one year or on demand (2019: not repayable within 12 months from reporting date).

As at 31 December 2020, there were utilised facility loans with the principal amount of CAD5,779,000 (equivalent to HK$35,181,000) (2019: CAD1,378,000 (equivalent to HK$8,263,000)) guaranteed by the subsidiaries of the Company. The balance of CAD4,065,000 (equivalent to HK$24,744,000) (2019: CAD1,378,000 (equivalent to HK$8,263,000) is repayable within one year or on demand. while the maturity date for remaining balance of CAD1,714,000 (equivalent to HK$10,437,000) (2019: Nil) is in August 2023.

During the year, certain loans granted under emergencies loan schemes from Covid-19 including a sum of US$1,064,000 (equivalent to HK$8,251,000) which may be subsequently waived upon fulfilment of certain conditions and CAD40,000 (equivalent to HK$244,000) unsecured loan. The loans are not repayable within 12 months from 31 December 2020.

As at 31 December 2019, bank loan with principal amount of RMB11,620,000 (equivalent to HK$13,001,000) is guaranteed by facilities from another subsidiary and secured by bank deposit. Another bank loan with principal amount of RMB5,650,000 (equivalent to HK$6,321,000) was secured by bank deposits. The loans were settled during the year.

23. BORROWINGS (CONTINUED)

(ii) As at 31 December 2011, a bank loan granted to a then subsidiary of the Company (the "Subsidiary") under the Special Loan Guarantee Scheme (the "SME loan") of the Hong Kong Special Administrative Region Government (the "Government") to the extent of HK$6,000,000. It represented a 5-year instalment loan which was 80% guaranteed by the Government and a corporate guarantee was provided to the bank by the Subsidiary's immediate holding company which is also an indirect wholly-owned subsidiary of the Company as at 31 December 2020 and 2019, 2018, 2017, 2016, 2015, 2014 and 2013.

According to the Company's announcement dated 20 December 2010, the Group decided not to continue to finance its entertainment media business, and the Subsidiary, as one of the Group companies engaged in the entertainment media business, ceased its operation before 31 December 2010, and ceased the instalment repayment of the SME loan which was due in December 2010. The aforesaid bank had issued a demand letter to the Subsidiary and stated that it might take any legal action against the Subsidiary in respect of the repayment of the SME loan.

During the year ended 31 December 2011, the Subsidiary and its immediate holding company further received a writ of summon from the Court of First Instance and the statement of claim from the legal representative of the plaintiff claiming for (i) outstanding principal amount and related overdue interest and (ii) cost of legal action in respect of the claim on a full indemnity basis to be taxed if not agreed and further or other relief (collectively the "Claim"). The entire outstanding SME loan as at 31 December 2011 was classified under the current liabilities of the Group in the consolidated financial statements.

During the year ended 31 December 2012, a provisional liquidator was appointed for the Subsidiary by the order of the Official Receiver's Office in July 2012 and thereafter the Group lost control of the Subsidiary which was therefore deconsolidated from the Group on the same date. During the year ended 31 December 2013, two joint and several liquidators were appointed in July 2013. Nevertheless, the obligation under the SME loan and the related accrued interest payable were borne by the immediate holding company of the Subsidiary (as the provider of the corporate guarantee). Accordingly, the SME loan and the related accrued interest payable were still included under the current liabilities of the Group as at 31 December 2020, 2019, 2018, 2017, 2016, 2015, 2014, 2013 and 2012.

As at 31 December 2020, the carrying amount of the SME loan and the related accrued interest payable was HK$4,854,000 (2019: HK$4,854,000) and HK$12,842,000 (2019: HK$9,896,000), respectively. The related accrued interest payable was included in the Group's trade payables, other payables and accruals as calculated in accordance with the loan agreement and the Claim. In the opinion of the Directors, the related cost of legal action and further or other relief in connection with the Claim cannot be measured reliably and hence no provision has been made as at 31 December 2020 and 2019. No further action has been taken against the Group during the current year.

Up to the date of approval of these consolidated financial statements, the SME loan and the related accrued interest payable have not been settled nor has any negotiation been made with the bank. There was no corporate guarantee issued by the Company in favour of the Subsidiary nor the immediate holding company of the Subsidiary, and the Directors are of the opinion that adequate provisions and disclosures have been made in these consolidated financial statements, and the above matter in the non-repayment of the SME loan and the related accrued interest payable has no further material adverse financial impact to the Company or the Group.

23. BORROWINGS (CONTINUED)

(iii) As at 31 December 2020, new other loans with the principal amount of US$429,000 (equivalent to HK$3,326,000) and HK$10,020,000 (2019: Nil) are unsecured, interest-bearing and repayable within 12 months from 31 December 2020.

As at 31 December 2020, a secured loan facility was fully utilised with principal amount of US$3,354,000 (equivalent to HK$26,006,000) (2019: Nil) was secured by the security interest in all right, title and interest in a film investment.

As at 31 December 2019, there were loans with principal amount of RMB20,000,000 (equivalent to HK$22,376,000) provided by a non-controlling shareholder of a non-wholly owned subsidiary in accordance with the terms of sale and purchase agreement. The amount was derecognised upon disposal of subsidiaries. Refer to note 31.

(iv) As at 31 December 2020, two other loans with principal amounts of US$8,000,000 (equivalent to HK$62,022,000) (2019: US$8,000,000 (equivalent to HK$62,329,000)) and HK$34,290,000 (2019: HK$50,000,000), respectively, are interest-bearing at interest rate from prime rate quoted by a bank in Hong Kong and not repayable within 13 months from 31 December 2020.

As at 31 December 2020, one of other loans with a principal amount US$3,500,000 (equivalent to HK$27,065,000) (2019: US$3,500,000 (equivalent to HK$27,065,000)) is unsecured, interest-free and not repayable within 13 months from 31 December 2020.

As at 31 December 2019, a non-bank loan with the principal amount of HK$10,000,000 were unsecured, interest-free and not repayable within 13 months. The loan has been early settled during the year.

As at 31 December 2020 and 2019, all the loans of the Group are denominated in either HK$, RMB, Canadian dollar ("CAD") or United States dollar ("US$").

The bank loans bear floating interest rates at effective rates ranging from 2.25% to 6.25% (2019: 4.57% to 6.25%) per annum.

The Directors consider that the carrying amounts of the Group's bank borrowings and other loan approximate their fair values as at 31 December 2020 and 2019.

23. BORROWINGS (CONTINUED)

At the end of the reporting period, total current and non-current bank loans and overdrafts were scheduled to repay as follows:

	2020 HK$'000	**2019** HK$'000
On demand or within one year	114,933	32,494
More than one year, but not exceeding two years	14,722	70,121
More than two years, but not exceeding five years	4,210	–
After five years	–	–
	133,865	102,615

At the end of the reporting period, total current and non-current other borrowings (excluding lease liabilities) were scheduled to repay as follows:

	2020 HK$'000	**2019** HK$'000
On demand or within one year	39,352	22,376
More than one year, but not exceeding two years	123,377	149,394
More than two years, but not exceeding five years	–	–
After five years	–	–
	162,729	171,770

Note:

The amounts due are based on the scheduled repayment dates in the loan agreements and ignore the effect of any repayment on demand clause.

The Group regularly monitors the compliance with these covenants, is up to date with the scheduled repayments of the term loans and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Company continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in note 41(b). As at 31 December 2020 none of the covenants relating to drawn down facilities had been breached.

24. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2020	2019	2020 HK$'000	2019 HK$'000
Ordinary shares of HK$0.01 each				
Authorised:				
As at 1 January 2019, 31 December 2019 and 31 December 2020 of HK$0.01 each	75,000,000,000	75,000,000,000	750,000	750,000
Issued and fully paid ordinary shares:				
As at 1 January of HK$0.01 each	34,073,816,258	26,731,511,340	340,737	267,314
Issue of shares on exercise of share options *(Note (a))*	1,700,000	6,000,000	17	60
Issue of shares on placement *(Note (b))*	–	7,323,600,000	–	73,236
Issue of shares for acquisition of intangible assets completed in previous years *(Note (c))*	–	12,704,918	–	127
As at 31 December	34,075,516,258	34,073,816,258	340,754	340,737

Notes:

(a) During the year, 1,700,000 (2019: 6,000,000) new ordinary shares of par value HK$0.01 each were issued to the share option holders of the Company at a conversion price of HK$0.046 (2019: HK$0.098) each and the conversion gave rise to a credit of HK$61,000 (2019: HK$519,000) to the share premium account.

(b) On 12 April 2019, 5,323,600,000 new ordinary shares of par value HK$0.01 each were issued at subscription price of HK$0.104 each to an independent third party of the Group at an aggregate consideration of HK$553,556,000 net of issuing expenses, of which HK$53,236,000 was credited to the share capital and the remaining balance of HK$500,320,000 was credited to the share premium account. Further details were set out in the Company's announcements dated 22 March 2019 and 12 April 2019.

On 25 July 2019, 2,000,000,000 new ordinary shares of par value HK$0.01 each were issued at placing price of HK$0.104 each to independent third parties of the Group at an aggregate consideration of HK$205,806,000 net of issuing expenses, of which HK$20,000,000 was credited to the share capital and the remaining balance of HK$185,806,000 was credited to the share premium account. Further details were set out in the Company's announcements dated 3 July 2019, 18 July 2019 and 25 July 2019.

(c) On 9 December 2019, the Company issued 12,704,918 shares of the Company as part of the consideration for the acquisition of intangible assets during the year ended 31 December 2016, resulting in a balance of HK$7,580,000 credited to share premium account. Further details were set out in the Company's announcement dated 9 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

25. RESERVES

Company

	Share premium HK$'000 (Note (i))	Contributed surplus HK$'000 (Note (iv))	Share options reserve HK$'000 (Note (v))	Deferred shares reserve HK$'000 (Note (vi))	Accumulated losses HK$'000	Total HK$'000
As at 1 January 2019	1,290,487	594,690	169,132	7,767	(1,051,262)	1,010,814
Recognition of equity-settled share-based payment expenses	–	–	5,113	–	–	5,113
Issue of shares on placement, net of expenses	686,126	–	–	–	–	686,126
Issue of shares for acquisition of intangible assets completed in previous years	7,580	–	–	(7,767)	–	(187)
Issue of shares on exercise of share options, net of expenses	519	–	(206)	–	206	519
Loss and total comprehensive income for the year	–	–	–	–	(621,839)	(621,839)
As at 31 December 2019 and 1 January 2020	1,984,712	594,690	174,039	–	(1,672,895)	1,080,546
Recognition of equity-settled share-based payment expenses	–	–	7,943	–	–	7,943
Issue of shares on exercise of share options, net of expenses	61	–	(33)	–	33	61
Loss and total comprehensive income for the year	–	–	–	–	(1,084,504)	(1,084,504)
As at 31 December 2020	1,984,773	594,690	181,949	–	(2,757,366)	4,046

Notes:

(i) Share premium

The application of the share premium account is governed by Section 40 of the Bermuda Companies Act.

(ii) FVOCI reserve

The FVOCI reserve represents fair value reserve comprises the cumulative net change in the fair value of equity investment designated at FVOCI under HKFRS 9 that are held at the end of the reporting period.

(iii) Buildings revaluation reserve

Buildings revaluation reserve arose in 2005 upon the fair value adjustment when the Group reclassified its land and buildings as investment properties.

25. RESERVES (CONTINUED)

Notes: (continued)

(iv) Contributed surplus

Contributed surplus of the Group represents the net balance of (i) the credit arising from the capital reorganisation of the Company during the year ended 31 December 2009 and 2017 (the "Capital Reorganisation") which was transferred to the contributed surplus account and; (ii) all amounts standing to the credit of the share premium account of the Company immediately after the Capital Reorganisation were cancelled and the credit arising therefrom was transferred to the contributed surplus. Both took place in the year ended 31 December 2009 and 2017.

In addition to the retained profits, under the Companies Act of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

(v) Share options reserve

This reserve represents cumulative expenses recognised on the granting of unexercised share options to the participants over the vesting period.

(vi) Deferred shares reserve

The reserve represents the shares to be issued as part of the considerations for the acquisition of intangible assets during the year ended 31 December 2016. On 9 December 2019, shares of HK$7,767,000 were issued, being the third and final instalment for the acquisition. As at 31 December 2020, there is no deferred shares to be issued (2019: Nil).

(vii) Exchange fluctuation reserve

This reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy in note 4 "Translation of foreign currencies".

(viii) Other reserve

This reserve represents (i) the contributed surplus reserve of an associate established in the PRC, where the change in net assets attributable to the Group in relation to the change in ownership interests in the associate through cash injection by the Group and other investors of the associate; and (ii) the capital contribution to a non-wholly owned subsidiary from a non-controlling shareholder, which was transferred to accumulated losses of the Group upon disposal of the non-wholly owned subsidiary, details refer to note 31.

26. SHARE-BASED PAYMENT TRANSACTIONS

The Company operates the following equity-settled share option arrangements:

(i) Share option scheme

On 27 April 2012, a new 10-year share option scheme was adopted and amended on 3 April 2014 (the "Option Scheme"). Pursuant to the Option Scheme, the board is authorised to grant options to any Directors, employees and those persons of the Group who have contributed or will contribute to the Group as incentive schemes and rewards.

On 24 April 2019, 130,000,000 share options ("Options") were conditionally granted to employees of the Group. 109,999,999 Options have immediately vested on 24 April 2019, while 6,666,667 Options, 3,333,333 Options, 6,666,667 Options and remaining 3,333,334 Options will be vested on 29 February 2020, 24 April 2020, 28 February 2021 and 24 April 2021, respectively. All Options are exercisable from their respective vesting dates until 23 April 2029. The exercise price of the Options is HK$0.130, being the average closing price of the Company's ordinary shares for the five business days immediately before 24 April 2019.

On 21 May 2020, 478,000,000 Options were conditionally granted to employees of the Group, 292,200,000 Options have immediately vested on 21 May 2020, while 92,200,000 Options and 93,600,000 Options will be vested on 21 May 2021 and 21 May 2022 respectively. All Options are exercisable from their respective vesting dates until 20 May 2030. The exercise price of the Options is HK$0.046 per share, being the closing price of the Company's ordinary shares on 21 May 2020.

During the year, no Options (2019: Nil) were forfeited and 1,700,000 Options (2019: 6,000,000) were exercised and the weighted average share price at the dates of exercise was HK$0.098 (2019: HK$0.098), the average remaining contractual life is 5.73 years (2019: 5.75 years).

The fair value of services received in return for the grant on the grant date is measured by reference to the fair value of share options granted. The fair value of the share options granted on 21 May 2020 is determined based on binomial option pricing model. The weighted average fair value of each option granted during the year was HK$0.021.

The key valuation parameters are as follows:

Share price at grant date	HK$0.046
Exercise price	HK$0.046
Expected volatility	50%
Life of the share options	10 years
Expected dividend yield	0%
Risk-free rate	0.58%
Forfeiture rate	5.5%
Suboptimal exercise behaviour multiple	2.5

26. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(i) Share option scheme (continued)

Expected volatility is determined by considering the historical share price movement of the Company. Expected dividend yield is determined from the Company's historical payment of dividends. Risk-free rate is the average forecast rate obtained from Hong Kong Government Bonds. Forfeiture rate is determined from the Group's historical employee share options exit rate. Suboptimal exercise behaviour multiple is based on the Company's historical employee share options early exercise multiples.

The fair value of equity-settled share options is estimated through the use of option valuation models which require various inputs and assumptions. The value of options is subjective and may be uncertain as it is affected by assumptions applied and with regard to the limitation of the valuation model. Some of the inputs are based on estimates derived from historical information of the Group, such as suboptimal exercise behaviour. In this regard, using different input estimates could produce different option values, which would result in the recognition of a higher or lower expense.

There were no market vesting conditions associated with the share options granted.

The Group recognised a share option expense in connection to all share options granted in current and prior years of approximately HK$7,943,000 (2019: HK$5,113,000) during the year ended 31 December 2020.

The following tables disclose movements in the Company's share options during the years ended 31 December 2020 and 2019:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

26. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(i) Share option scheme (continued)

2020

Name or category of participants	At 1 January 2020	Granted during the year	Exercised during the year	Forfeited/ lapsed during the year	At 31 December 2020	Date of grant	Exercise period	Exercise price per share (HK$)
Directors								
Seah Ang	100,000,000	–	–	–	100,000,000	23 July 2014	28 May 2017 to 27 May 2024	0.098
Wang Wei-Chung	1,666,667	–	–	–	1,666,667	29 Jan 2016	29 Jan 2016 to 28 Jan 2026	0.413
	1,666,667	–	–	–	1,666,667	29 Jan 2016	29 Jan 2017 to 28 Jan 2026	0.413
	1,666,666	–	–	–	1,666,666	29 Jan 2016	29 Jan 2018 to 28 Jan 2026	0.413
Employees, in aggregate								
– 2014	644,730,000	–	–	–	644,730,000	28 May 2014	28 May 2017 to 27 May 2024	0.098
– 2015	20,990,000	–	–	–	20,990,000	6 May 2015	6 May 2015 to 5 May 2025	1.320
	20,000,000	–	–	–	20,000,000	6 May 2015	6 May 2016 to 5 May 2025	1.320
	19,000,000	–	–	–	19,000,000	6 May 2015	6 May 2017 to 5 May 2025	1.320
– 2016	91,500,010	–	–	–	91,500,010	29 Jan 2016	29 Jan 2016 to 28 Jan 2026	0.413
	81,499,998	–	–	–	81,499,998	29 Jan 2016	29 Jan 2017 to 28 Jan 2026	0.413
	75,833,327	–	–	–	75,833,327	29 Jan 2016	29 Jan 2018 to 28 Jan 2026	0.413
	50,000,000	–	–	–	50,000,000	22 Jun 2016	22 Jun 2017 to 21 Jun 2026	0.495
	50,000,000	–	–	–	50,000,000	22 Jun 2016	22 Jun 2018 to 21 Jun 2026	0.495
	16,666,692	–	–	–	16,666,692	29 Jul 2016	29 Jul 2016 to 28 Jul 2026	0.566
	11,699,998	–	–	–	11,699,998	29 Jul 2016	29 Jul 2017 to 28 Jul 2026	0.566
	8,433,324	–	–	–	8,433,324	29 Jul 2016	29 Jul 2018 to 28 Jul 2026	0.566
– 2019	109,999,999	–	–	–	109,999,999	24 Apr 2019	24 Apr 2019 to 23 Apr 2029	0.130
	6,666,667	–	–	–	6,666,667	24 Apr 2019	29 Feb 2020 to 23 Apr 2029	0.130
	3,333,333	–	–	–	3,333,333	24 Apr 2019	24 Apr 2020 to 23 Apr 2029	0.130
	6,666,667	–	–	–	6,666,667	24 Apr 2019	28 Feb 2021 to 23 Apr 2029	0.130
	3,333,334	–	–	–	3,333,334	24 Apr 2019	24 Apr 2021 to 23 Apr 2029	0.130
– 2020	–	292,200,000	(1,700,000)	–	290,500,000	21 May 2020	21 May 2020 to 20 May 2030	0.046
	–	92,200,000	–	–	92,200,000	21 May 2020	21 May 2021 to 20 May 2030	0.046
	–	93,600,000	–	–	93,600,000	21 May 2020	21 May 2022 to 20 May 2030	0.046
Others								
Amit Chopra	48,000,000	–	–	–	48,000,000	28 May 2014	28 May 2017 to 27 May 2024	0.098
	5,000,000	–	–	–	5,000,000	6 May 2015	6 May 2015 to 5 May 2025	1.320
	5,000,000	–	–	–	5,000,000	6 May 2015	6 May 2016 to 5 May 2025	1.320
	5,000,000	–	–	–	5,000,000	6 May 2015	6 May 2017 to 5 May 2025	1.320
	33,333,334	–	–	–	33,333,334	7 Jun 2016	29 Jan 2016 to 28 Jan 2026	0.413
	33,333,333	–	–	–	33,333,333	7 Jun 2016	29 Jan 2017 to 28 Jan 2026	0.413
	33,333,333	–	–	–	33,333,333	7 Jun 2016	29 Jan 2018 to 28 Jan 2026	0.413
Wei Ming	300,000,000	–	–	–	300,000,000	1 Jun 2017	13 Feb 2017 to 12 Feb 2027	0.469
	1,788,353,349	478,000,000	(1,700,000)	–	2,264,653,349			
Weighted average exercise price	HK$0.308	HK$0.046	HK$0.046	N/A	HK$0.253			

26. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(i) Share option scheme (continued)

2019

Name or category of participants	At 1 January 2019	Granted during the year	Exercised during the year	Forfeited/ lapsed during the year	At 31 December 2019	Date of grant	Exercise period	Exercise price per share (HK$)
Directors								
Seah Ang	100,000,000	–	–	–	100,000,000	23 July 2014	28 May 2017 to 27 May 2024	0.098
Wang Wei-Chung	1,666,667	–	–	–	1,666,667	29 Jan 2016	29 Jan 2016 to 28 Jan 2026	0.413
	1,666,667	–	–	–	1,666,667	29 Jan 2016	29 Jan 2017 to 28 Jan 2026	0.413
	1,666,666	–	–	–	1,666,666	29 Jan 2016	29 Jan 2018 to 28 Jan 2026	0.413
Amit Chopra	48,000,000	–	–	–	48,000,000	28 May 2014	28 May 2017 to 27 May 2024	0.098
	5,000,000	–	–	–	5,000,000	6 May 2015	6 May 2015 to 5 May 2025	1.320
	5,000,000	–	–	–	5,000,000	6 May 2015	6 May 2016 to 5 May 2025	1.320
	5,000,000	–	–	–	5,000,000	6 May 2015	6 May 2017 to 5 May 2025	1.320
	33,333,334	–	–	–	33,333,334	7 Jun 2016	29 Jan 2016 to 28 Jan 2026	0.413
	33,333,333	–	–	–	33,333,333	7 Jun 2016	29 Jan 2017 to 28 Jan 2026	0.413
	33,333,333	–	–	–	33,333,333	7 Jun 2016	29 Jan 2018 to 28 Jan 2026	0.413
Wei Ming	300,000,000	–	–	–	300,000,000	1 Jun 2017	13 Feb 2017 to 12 Feb 2027	0.469
Employees, in aggregate								
– 2014	650,730,000	–	(6,000,000)	–	644,730,000	28 May 2014	28 May 2017 to 27 May 2024	0.098
– 2015	20,990,000	–	–	–	20,990,000	6 May 2015	6 May 2015 to 5 May 2025	1.320
	20,000,000	–	–	–	20,000,000	6 May 2015	6 May 2016 to 5 May 2025	1.320
	19,000,000	–	–	–	19,000,000	6 May 2015	6 May 2017 to 5 May 2025	1.320
– 2016	91,500,010	–	–	–	91,500,010	29 Jan 2016	29 Jan 2016 to 28 Jan 2026	0.413
	81,499,998	–	–	–	81,499,998	29 Jan 2016	29 Jan 2017 to 28 Jan 2026	0.413
	75,833,327	–	–	–	75,833,327	29 Jan 2016	29 Jan 2018 to 28 Jan 2026	0.413
	50,000,000	–	–	–	50,000,000	22 Jun 2016	22 Jun 2017 to 21 Jun 2026	0.495
	50,000,000	–	–	–	50,000,000	22 Jun 2016	22 Jun 2018 to 21 Jun 2026	0.495
	16,666,692	–	–	–	16,666,692	29 Jul 2016	29 Jul 2016 to 28 Jul 2026	0.566
	11,699,998	–	–	–	11,699,998	29 Jul 2016	29 Jul 2017 to 28 Jul 2026	0.566
	8,433,324	–	–	–	8,433,324	29 Jul 2016	29 Jul 2018 to 28 Jul 2026	0.566
– 2019	–	109,999,999	–	–	109,999,999	24 Apr 2019	24 Apr 2019 to 23 Apr 2029	0.130
	–	6,666,667	–	–	6,666,667	24 Apr 2019	29 Feb 2020 to 23 Apr 2029	0.130
	–	3,333,333	–	–	3,333,333	24 Apr 2019	24 Apr 2020 to 23 Apr 2029	0.130
	–	6,666,667	–	–	6,666,667	24 Apr 2019	28 Feb 2021 to 23 Apr 2029	0.130
	–	3,333,334	–	–	3,333,334	24 Apr 2019	24 Apr 2021 to 23 Apr 2029	0.130
	1,664,353,349	130,000,000	(6,000,000)	–	1,788,353,349			
Weighted average exercise price	HK$0.321	N/A	HK$0.098	N/A	HK$0.308			

(ii) Option granted under general mandate

No option was granted under general mandate during the year (2019: Nil).

27. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

As at 31 December 2020

	Notes	**2020** HK$'000	**2019** HK$'000
Non-current assets			
Property, plant and equipment		13	24
Interests in subsidiaries		371,494	1,287,384
		371,507	1,287,408
Current assets			
Other receivables and prepayments		1,771	2,180
Bank balances and cash		2,817	138,206
		4,588	140,386
Current liabilities			
Other payables and accruals		21,275	6,511
Borrowings		10,020	–
		31,295	6,511
Net current (liabilities)/assets		(26,707)	133,875
Total assets less current liabilities		344,800	1,421,283
NET ASSETS		344,800	1,421,283
Capital and reserves			
Share capital	*24*	340,754	340,737
Reserves	*25*	4,046	1,080,546
TOTAL EQUITY		344,800	1,421,283

On behalf of the Board

Seah Ang
Director

On behalf of the Board

Duan Xiongfei
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

28. SUBSIDIARIES

Particulars of the Company's material subsidiaries as at 31 December 2020 and 2019 are as follows:

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2020 and 2019		Nature of business
			Direct	Indirect	
Choice Excel Holdings Limited	The British Virgin Islands	US$100	–	85%	Investment holdings
Chosen Elite Holdings Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
City Trend International Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Cosmos Glory Limited	Hong Kong	HK$27,392,698	–	85%	Investment holdings
COTC Productions, Inc.	USA	US$10	–	51%	Film investment and production
Creation Smart Investments Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
DD Asset Management (BVI) Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
DD Fengshu Media Limited	Hong Kong	HK$1	–	100%	Dormant
DD Holdings US, LLC	USA	US$35,000,000	–	100%	Investment holdings
DD Investments US, Inc.	USA	US$1	–	100%	Dormant
DD Licensing (HK) Limited	Hong Kong	HK$1	–	100%	Investment holdings
DD Licensing (US), Inc.	USA	US$1	–	100%	Dormant
DD Licensing Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
DD Micoy, Inc.	USA	US$1	–	100%	Holding assets
DDH Assets Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
DDHU Management Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
DDI Visuals Private Limited	India	INR1,000	–	100%	Visual effects production
DDPO (BVI) Company Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
DDR (US), LLC	USA	US$50,000,000	–	100%	Investment holdings

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

28. SUBSIDIARIES (CONTINUED)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2020 and 2019		Nature of business
			Direct	Indirect	
DDVR, Inc.	USA	US$1	–	100%	Investment holdings and virtual reality businesses
Digital Domain (International) Limited	Hong Kong	HK$1	–	100%	Investment holdings
Digital Domain 3.0 Virtual Performer Productions (BC) Ltd.	Canada	CAD100	–	100%	Dormant
Digital Domain 3.0, Inc.	USA	US$50	–	100%	Visual effects production
Digital Domain Assets Limited	Hong Kong	HK$1	–	100%	Investment holdings
Digital Domain Broadcasting (Hong Kong) Limited	Hong Kong	HK$1	–	100%	Investment holdings
Digital Domain Broadcasting Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Consultancy Limited	Hong Kong	HK$1	–	100%	Provision of management services
Digital Domain Content (Hong Kong) Limited	Hong Kong	HK$1	–	100%	Virtual reality content business
Digital Domain Content Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Content Studio, Inc.	USA	US$1	–	100%	Investment holdings
Digital Domain Development Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain Development Limited	Hong Kong	HK$1	–	100%	Investment holdings
Digital Domain Distribution (Hong Kong) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Distribution Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Education (HK) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Education Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Enterprise Limited	The British Virgin Islands	US$1	100%	–	Investment holdings

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

28. SUBSIDIARIES (CONTINUED)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2020 and 2019		Nature of business
			Direct	Indirect	
Digital Domain Enterprises Group (BVI) Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain Enterprises Group Limited	Hong Kong	HK$1	–	100%	Virtual human business
Digital Domain Entertainment (HK) Limited	Hong Kong	HK$1	–	100%	Investment holdings
Digital Domain Entertainment Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Group Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Interactive, LLC	USA	–	–	100%	Virtual reality business
Digital Domain International Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain Investments (BVI) Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain Investments Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Management Limited	Hong Kong	HK$100	–	100%	Dormant
Digital Domain Music (HK) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Music Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Network Technology (Hong Kong) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Network Technology Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Pictures (HK) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Pictures Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Production (HK) Limited	Hong Kong	HK$1	–	100%	TV drama investment
Digital Domain Production Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Productions 3.0 (BC), Ltd.	Canada	CAD1	–	100%	Visual effects production

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

28. SUBSIDIARIES (CONTINUED)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2020 and 2019		Nature of business
			Direct	Indirect	
Digital Domain Productions Québec, Ltd.	Canada	CAD100	–	100%	Visual effects production
Digital Domain Resources Limited	Hong Kong	HK$2	–	100%	Provision of management services
Digital Domain Studio (HK) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Studio Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Technology (US), Inc.	USA	US$1	–	100%	Virtual reality business
Digital Domain Technology Limited	Hong Kong	HK$1	–	100%	Investment holdings
Digital Domain Trading Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain VFX Holdings Limited	The British Virgin Islands	US$1	–	100%	Dormant
Digital Domain Virtual Human (HK) Limited	Hong Kong	HK$1	–	80%	Investment holdings
Digital Domain Virtual Human (US), Inc.	USA	US$1	–	80%	Software development and research
Digital Domain Virtual Human Holdings Limited	The British Virgin Islands	US$2,000,160	–	80%	Investment holdings
Digital Domain Virtual Human Productions (BC), Ltd.	Canada	CAD1	–	80%	Software development and research
Digital Domain Virtual Reality Holdings Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain YK (HK) Company Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain YK Company Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Driven Global Holdings Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Ever Champ Management Limited	The British Virgin Islands	US$1	100%	–	Investment holdings

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

28. SUBSIDIARIES (CONTINUED)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2020 and 2019		Nature of business
			Direct	Indirect	
Ever Ultra Limited	The British Virgin Islands	US$100	–	100%	Investment holdings
Ever Union Medical Services Group Limited	Hong Kong	HK$100	–	100%	Investment holdings
Ever Union Services Development Limited	Hong Kong	HK$100	–	100%	Investment holdings and provision of consultancy services
Four Pillars Entertainment, Inc.	USA	US$1	–	51%	Film investment and production
Four Pillars Media Development, Inc.	USA	US$1	–	51%	Film investment and production
Golden Stream Global Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
IM360 Entertainment Inc.	Canada	CAD7,307,647	–	91.71%	Interactive media technology through 360 degree video
Immersive Licensing, Inc.	USA	US$1,000	–	83.10%	Manage intellectual property licences and trademarks
Immersive Media Company	USA	US$15	–	83.10%	Interactive media technology through 360 degree video
Immersive Ventures Inc.	Canada	CAD11,108,656	–	83.10%	Interactive media technology through 360 degree video
Impala 2020 Pty Ltd#	Australia	AUD12	–	51%	Film investment and production
Impala Productions (BC), Ltd.#	Canada	CAD1	–	51%	Film investment and production
Lucrative Skill Holdings Limited	The British Virgin Islands	US$100	–	85%	Investment holdings
Mothership Media, Inc.	USA	US$0.01	–	100%	Visual effects production

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

28. SUBSIDIARIES (CONTINUED)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2020 and 2019		Nature of business
			Direct	Indirect	
Post Production Office Limited	Hong Kong	HK$16,993,446	–	85%	Investment holdings
Praya Star Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Rise Honour Development Limited	Hong Kong	HK$1	–	100%	Investment holdings
Ritzy Moment Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
S. I. Travel Group Limited	The British Virgin Islands/ Hong Kong	US$1	100%	–	Trading
Sun Innovation International Group Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Sun Innovation Management Services Limited	Hong Kong	HK$2	100%	–	Provision of management services
Sun Innovation Properties Holdings Limited	The British Virgin Islands	US$2	100%	–	Investment holdings
Tower Talent Holdings Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Treasure Well Development Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Upfield Sky Limited	The British Virgin Islands	US$10,000	–	100%	Investment holdings
Vibrant Global Group Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Virtue Global Holdings Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Well Venture Holdings Limited	Hong Kong	HK$1	–	100%	Securities investment and investment holding

28. SUBSIDIARIES (CONTINUED)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2020 and 2019		Nature of business
			Direct	Indirect	
長和技術發展(深圳)有限公司	The PRC	RMB5,493,649	–	100%	Provision of consultancy services
數字王國文霆(北京)文化傳媒有限公司	The PRC	RMB54,298,282	–	85%	Visual effects production and post production
數字王國朝霆(上海)文化傳媒有限公司	The PRC	RMB23,916,998	–	85%	Visual effects production and post production
數字王國(深圳)科技發展有限公司°	The PRC	HK$10,960,000	–	100%	Visual effects production

Notes:

\# These subsidiaries were newly incorporated/established during the year.

° The company is a wholly-foreign-owned-enterprise. The entire registered capital amounted to HKD16,100,000, and the remaining balance of registered capital is required to be paid on or before 23 January 2034.

All the above are limited liability companies.

Unless otherwise stated, the above subsidiaries' places of operations are the same as their respective places of incorporation/establishment.

None of the subsidiaries had issued any debt securities during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

29. NON-CONTROLLING INTEREST

The following table lists out the information relating to Immersive Ventures Inc., IM360 Entertainment Inc., Lead Turbo Limited, Four Pillars Entertainment, Inc., Digital Domain Virtual Human Holdings Limited, COTC Productions, Inc. and Lucrative Skill Holdings Limited, subsidiaries of the Company which have material NCI. The summarised financial information presented below represents the amounts before any inter-company elimination.

	Immersive Ventures Inc.		IM360 Entertainment Inc.		Lead Turbo Limited#		Four Pillars Entertainment, Inc.		Digital Domain Virtual Human Holdings Limited		COTC Productions, Inc.		Lucrative Skill Holdings Limited		DD & TT Company Limited*	
	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000
At 31 December:																
NCI percentage	16.9%	16.9%	8.281%	8.281%	33.12%	33.12%	49%	49%	20%	20%	51.55%	N/A	15%	15%	N/A	40%
Non-current assets	194,860	196,864	5,346	5,871	–	212,094	557	2,301	60,733	17,137	–	N/A	35,402	48,681	N/A	–
Current assets	279	539	31,514	31,154	–	61,784	83,218	9,683	3,467	16,571	102,871	N/A	82,455	81,530	N/A	–
Non-current liabilities	(46,498)	(46,379)	–	–	–	(19,992)	(65)	–	–	–	–	N/A	(4,109)	(12,450)	N/A	–
Current liabilities	(93,085)	(90,715)	(42,987)	(42,373)	–	(63,829)	(99,668)	(16,932)	(83,207)	(28,926)	(104,181)	N/A	(281,374)	(254,994)	N/A	–
Net assets/(liabilities)	55,556	60,309	(6,127)	(5,348)	–	190,057	(15,958)	(4,948)	(19,007)	4,782	(1,310)	N/A	(167,626)	(137,233)	N/A	–
Accumulated NCI *(Note)*	9,388	10,192	(507)	(443)	–	62,947	(7,820)	(2,424)	(3,802)	956	(675)	N/A	(25,144)	(20,585)	N/A	–
Year ended 31 December:																
Revenue	–	30	–	–	3,022	79,054	–	–	–	–	–	N/A	63,028	43,018	N/A	517
(Loss)/profit for the year	(6,904)	(7,921)	(666)	(407)	(34,126)	(14,557)	(11,039)	(4,976)	(23,404)	(1,933)	(1,310)	N/A	(31,242)	(63,867)	N/A	(418)
Total comprehensive income	(4,753)	(1,748)	(779)	(625)	(34,931)	(17,243)	(11,010)	(4,948)	(23,789)	(2,086)	(1,310)	N/A	(30,393)	(65,165)	N/A	(418)
(Loss)/profit allocated to NCI *(Note)*	(1,167)	(1,339)	(55)	(34)	(11,302)	(4,821)	(5,409)	(2,438)	(4,681)	(386)	(675)	N/A	(4,687)	(9,582)	N/A	(166)
Total comprehensive income allocated to NCI *(Note)*	(804)	(296)	(64)	(52)	(11,569)	(5,711)	(5,396)	(2,424)	(4,758)	(417)	(675)	N/A	(4,559)	(9,776)	N/A	(166)
Dividend paid to NCI	–	–	–	–	–	–	–	–	–	–	–	N/A	–	–	N/A	–
Net cash (outflows)/inflows from operating activities	10	(9)	(67)	(60)	(14,006)	(23,484)	(3,795)	6,037	7,740	(4,350)	(16,969)	N/A	10,768	21,357	N/A	(177)
Net cash inflow/(outflows) from investing activities	–	–	–	–	(11,295)	26,059	(5)	(728)	(7,929)	(11,206)	–	N/A	(2,594)	(7,273)	N/A	–
Net cash inflows/(outflows) from financing activities	–	–	–	–	–	51,557	65	–	–	15,685	26,006	N/A	(19,322)	8,243	N/A	–

Lead Turbo Limited was disposed of on 31 July 2020 and became the associate of the Group since then. Details were set out in notes 16 and 31.

* DD & TT Company Limited was disposed of on 31 January 2019 and became the associate of the Group since then. Details were set out in notes 16 and 32(a).

Note: The aggregate NCI as at 31 December 2020 amounted to debit balance of approximately HK$28,560,000 (2019: credit balance of approximately HK$50,643,000) and the aggregate net losses and total comprehensive income allocated to NCI for the year then ended amounted to approximately HK$27,976,000 (2019: HK$18,766,000) and HK$27,825,000 (2019: HK$18,842,000), respectively.

30. BUSINESS COMBINATION IN PRIOR YEAR

On 1 September 2019, the Group completed its acquisition of 100% issued share capital of Shenzhen Weier in consideration of RMB20,000,000 (equivalent to approximately HK$21,916,000). Under the structure contracts entered into among 深圳市虛擬現實技術有限公司 and the registered shareholder of Shenzhen Weier, the Group is able to effectively control, recognise and receive substantially all the economic benefit of the business and operations of Shenzhen Weier.

Shenzhen Weier is principally engaged in providing VR content through the website and online platform. The acquisition was made by the Group with the aim to derive synergy effect to the existing VR services.

The fair value of identifiable assets and liabilities of Shenzhen Weier as at the date of completion was:

	HK$'000
Property, plant and equipment	14
Intangible assets	1,211
Trade receivables, other receivables and prepayments	680
Amount due from related parties	815
Bank balances and cash	2,866
Trade payables, other payables and accruals	(3,787)
Contract liabilities	(2,959)
Amounts due to related parties	(7,408)
Net liabilities	(8,568)
Goodwill *(Note 15)*	30,484
Total consideration	21,916
Total consideration at fair value consisted of:	
– Cash consideration	21,916
	21,916

30. BUSINESS COMBINATION IN PRIOR YEAR (CONTINUED)

An analysis of the cash flows in respect of the acquisition of Shenzhen Weier is as follows:

	HK$'000
Cash consideration	21,916
Bank balances and cash acquired	(2,866)
Net outflow of cash and cash equivalents included in cash flows from investing activities	19,050

The fair value of trade and other receivables acquired as of the acquisition date amounted to HK$680,000. The gross contractual amount of these receivables is HK$680,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill, which was not deductible for tax purposes, comprised the acquired workforce and the expected future growth of the VR business (production of VR contents) to diversify the revenue stream of the existing businesses of the Group.

31. DISPOSAL OF SUBSIDIARIES DURING THE YEAR

On 17 July 2020, the Group entered into a sale and purchase agreement with an independent purchaser in connection with the disposal of 22.29% equity interest in the Lead Turbo Group. The total consideration with carrying amount of HK$99,242,000 will be settled in cash by three instalments of HK34,000,000 each. The 1st instalment has been received on the completion date. The 2nd and 3rd instalments with carrying amount at completion date of HK$33,300,000 and HK$31,942,000, are receivable within 1st and 2nd anniversary dates to the completion date, respectively. The disposal would facilitate the organic growth of the Lead Turbo Group by introducing a strategic partner that may support the Lead Turbo Group in its business expansion and its future capital requirements to fund technological development.

On 31 July 2020, the disposal was completed. Upon the completion of the disposal, the Group's equity interests in the Lead Turbo Group was reduced from 66.88% to 44.59%, the Group lost control over the Lead Turbo Group but retained significant influence over the Lead Turbo Group. Accordingly, the Group will account for its retained interest in the Lead Turbo Group as its interests in associates. The net assets at the date of disposal were as follows:

31. DISPOSAL OF SUBSIDIARIES DURING THE YEAR (CONTINUED)

	31 July 2020 HK$'000
Property, plant and equipment	4,859
Right-of-use assets	491
Intangible assets (other than goodwill)	148,846
Goodwill	195,193
Amount due from related parties	1,645
Prepayments – non-current portion	862
Deferred tax assets	2,295
Inventories	22,766
Trade and other receivables	5,522
Prepayments – current portion	3,765
Cash and cash equivalents	10,488
Trade and other payables	(4,607)
Lease liabilities	(528)
Contract liabilities	(309)
Other loan	(22,222)
Amounts due to related parties	(33,788)
Deferred tax liabilities	(15,563)
Net assets disposed of	319,715
Fair value of the Group's retained interest	(185,815)
Non-controlling interest	(51,378)
Cumulative exchange difference in respect of the net assets reclassified from equity to income statement	7,620
Gain on disposal of subsidiaries included in loss for the year from discontinued operation	9,100
Total consideration (present value of cash consideration)	99,242
Satisfied by:	
– Cash	34,000
– Deferred cash consideration	65,242
	99,242
Net cash inflow arising from disposal	
– Total cash consideration received	34,000
– Cash and bank balances disposed of	(10,488)
	23,512

Upon the completion of disposal, cash consideration of HK$34,000,000 was received and a gain on disposal of subsidiaries of HK$9,100,000 was recognised. The deferred consideration will be settled in cash by the purchaser on or before 31 July 2022.

32. DISPOSAL OF SUBSIDIARIES IN PRIOR YEAR

(a) On 31 January 2019, the Group disposed of 70% interest of its subsidiaries which are engaged in virtual human business in the Greater China region. The disposal would allow the Group to retain certain equity interest in the virtual human business in the Greater China region and benefit from additional funding and other resources for future development from strategic investors. On 31 January 2019, the disposal has been completed. The net assets at the date of disposal were as follows:

	31 January 2019 HK$'000
Property, plant and equipment	7,323
Intangible assets	35,117
Trade and other receivables	2,339
Cash and cash equivalents	638
Trade and other payables	(6,411)
Amounts due to holding companies	(113,327)
Non-controlling interest	(10,028)
Net liabilities	(84,349)
Net asset value of subsidiaries disposed of	(84,349)
Fair value of identifiable assets retained by the Group	(2,678)
Gain on disposal of subsidiaries included in loss for the year in the consolidated income statement	105,275
Total consideration	18,248
Satisfied by:	
Cash	18,248
Total	18,248
Net cash flow arising from disposal	
– Total cash consideration received	18,248
– Cash and bank balances disposed of	(638)
	17,610

Upon the completion of disposal, cash consideration of HK$18,248,000 was received and a gain on disposal of subsidiaries of HK$105,275,000 was recognised.

32. DISPOSAL OF SUBSIDIARIES IN PRIOR YEAR (CONTINUED)

(b) On 19 March 2019, the Group entered into a sale and purchase agreement with an independent purchaser in connection with disposal of a group of subsidiaries which are engaged in property investment business (the "Disposal Group"). The disposal was to realise the investment in property market due to the continuing softening of the real estate market in Hong Kong and also deploy its financial resources in the media entertainment business. On 18 June 2019, the disposal has been completed and a cash consideration of HK$215,802,000 (consideration of HK$216,000,000 per sale and purchase agreement adjusted by the net asset value of the Disposal Group at completion date). The net assets at the date of disposal were as follows:

	18 June 2019 HK$'000
Investment properties *(Note)*	209,000
Trade and other receivables	97
Trade and other payables	(19)
Net assets	209,078
Gain on disposal of subsidiaries included in loss for the year in the consolidated income statement	6,724
Total consideration	215,802
Satisfied by:	
Cash	215,802
Total	215,802

Upon the completion of disposal, cash consideration of HK$215,802,000 was received and a gain on disposal of subsidiaries of HK$6,724,000 was recognised.

Note:

Investment properties

Fair value

	HK$'000
As at 1 January 2019	208,300
Fair value gains	700
As at completion date of disposal	209,000

The Group's investment properties were located in Hong Kong.

The fair value of the Group's investment properties as at 18 June 2019 has been arrived at on market value basis based on valuations carried out by Knight Frank Petty Limited, which is independent firm of professionally qualified valuers, who holds recognised and relevant professional qualification and has recent experience in the locations and category of properties being valued.

33. NOTES SUPPORTING STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents comprise:

	2020 HK$'000	**2019** HK$'000
Cash available on demand	28,617	197,052
Short-term deposits	–	112,799
As at 31 December	28,617	309,851

33. NOTES SUPPORTING STATEMENT OF CASH FLOWS (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities:

	Bank borrowings *(Note 23)* HK$'000	Other loans *(Note 23)* HK$'000	Finance leases HK$'000	Lease liabilities *(Note 14)* HK$'000	Total HK$'000
At 1 January 2019	203,044	350,927	25,855	–	579,826
Changes from financing cash flows:					
– New bank borrowings	51,641	–	–	–	51,641
– Repayment of bank borrowings	(151,796)	–	–	–	(151,796)
– Repayment of principal portion of lease liabilities	–	–	–	(45,355)	(45,355)
– New inception of other loans	–	167,800	–	–	167,800
– Repayment of other loans	–	(346,265)	–	–	(346,265)
Other changes:					
– Effect on adoption of HKFRS 16	–	–	(25,855)	168,101	142,246
– Additions	–	–	–	42,320	42,320
Effects of foreign exchange	(274)	(692)	–	(417)	(1,383)
As at 31 December 2019 and 1 January 2020	102,615	171,770	–	164,649	439,034
Changes from financing cash flows:					
– New bank borrowings	68,494	–	–	–	68,494
– Repayment of bank borrowings	(37,610)	–	–	–	(37,610)
– Repayment of principal portion of lease liabilities	–	–	–	(46,328)	(46,328)
– New inception of other loans	–	39,347	–	–	39,347
– Repayment of other loans	–	(25,864)	–	–	(25,864)
Other changes:					
– Additions	–	–	–	963	963
– Covid-19-related rent concessions	–	–	–	(813)	(813)
– Effect of lease modification	–	–	–	(2,689)	(2,689)
– Disposal of subsidiaries	–	(22,222)	–	(528)	(22,750)
Effects of foreign exchange	366	(302)	–	(666)	(602)
As at 31 December 2020	133,865	162,729	–	114,588	411,182

34. RETIREMENT BENEFIT SCHEME

The Group contributes to defined contribution provident funds, including the scheme set up pursuant to the Hong Kong Mandatory Provident Fund Ordinance (the "MPF Scheme"), which are available to all Hong Kong employees. For the MPF Scheme, both the employees and the employer are required to contribute 5% of the employees' monthly salaries up to a maximum of HK$1,500 (2019: HK$1,500) (the "Mandatory Contribution"). The employees are entitled to 100% of the employer's Mandatory Contributions upon their retirement age of 65 years old, death or total incapacity. The unvested benefits of employees forfeited upon termination of employment can be utilised by the Group to reduce future levels of contributions. During the year, the aggregate amount of employer's contribution net of forfeited contribution made by the Group under the MPF Scheme was HK$682,000 (2019: HK$669,000).

The employees of the Group in the PRC are members of state-managed retirement benefit schemes operated by the local governments in the PRC. The Group is required to contribute a specified percentage of the payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions. During the year, the aggregate amount of employer's contribution net of forfeited contribution made by the Group under the state-managed retirement benefit schemes in the PRC was HK$5,166,000 (2019: HK$7,983,000).

35. CREDIT FACILITIES, PLEDGE OF ASSETS AND GUARANTEES

(a) As at 31 December 2020, the Group had aggregate banking facilities of HK$129,840,000 (2019: HK$239,957,000) from banks for guarantees and loans. The banking facilities are mainly secured by:

   (i) As at 31 December 2020, a margin securities trading account of a wholly-owned subsidiary of the Company is secured by an unlimited corporate guarantee provided by the Company. This margin facility has not been utilised as at 31 December 2020 (2019: Nil).

   (ii) As at 31 December 2020, the Group's bank loan with a carrying amount of approximately HK$85,282,000 (2019: HK$89,443,000) is secured by a pledged deposit of same amount in a subsidiary's account.

(b) As at 31 December 2020, there are term loan facilities of US$10,000,000 (2019: US$10,000,000) and HK$80,000,000 (2019: HK$80,000,000) from a substantial shareholder of the Company, Wise Sun Holdings Limited. The facilities were granted to a subsidiary of the Company. As at 31 December 2020, the balance of utilised facilities are US$8,000,000 (approximately HK$62,022,000) (2019: US$8,000,000 (approximately HK$62,329,000)) and HK$34,290,000 (2019: HK$50,000,000), respectively. The Company acts as a guarantor of these term loans.

36. CAPITAL COMMITMENTS

Other than those disclosed elsewhere in these consolidated financial statements, the Group did not have any significant capital commitment as at 31 December 2020 and 2019.

37. RELATED PARTY TRANSACTIONS

Members of key management personnel during the year comprised only of the executive directors whose remuneration is set out in note 10.

38. CONTINGENT LIABILITIES

The Group has been acknowledged by several customers in the USA in connection with the possible indemnification of losses suffered by these customers as a result of their involvements in other lawsuits (the "Other Lawsuits") filed by a claimant (the "Claimant") against these customers. This Claimant had dispute over ownership of certain physical equipment and intellectual property (the "Disputed IP") with the original owner (the "Original Owner") and a court in the USA concluded that the Claimant owns the Disputed IP on 11 August 2017. The Group had used these Disputed IP under a licence from the Original Owner and completed certain visual effect projects for these customers.

The US Subsidiary submitted these indemnity requests to one of its insurance companies that may provide insurance coverage for indemnity claims brought against it. The insurance company believed that coverage was no longer existed under the insurance policy but would continue to negotiate with the US Subsidiary about contributing to the defence of the clients in the Other Lawsuits.

No specific monetary amount has been identified in the indemnity requests by these customers. The insurance company and the US Subsidiary are continuing their discussions with respect to whether, and to what extent the insurance company will pay the defence costs of the US Subsidiary's clients in the Other Lawsuits.

No provision for the indemnity has been recognised for the year ended 31 December 2020 (2019: Nil) as, in the opinion of the Directors, the Group may or may not require a significant outflow of resource for the indemnification.

39. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

(i) Share Placement

On 11 December 2020, the Company entered into a share subscription agreement with an independent third party to allot and issue 6,814,760,000 new ordinary shares with par value of HK$0.01 at a discounted subscription price of HK$0.05 each at an aggregate consideration of HK$340,538,000 net of issuing expenses. Further details were set out in the Company's announcements dated 11 December 2020 and 27 December 2020.

On 18 January 2021, the share subscription was completed and the Company raised additional cash of HK$340,538,000 by means of a share placing of 6,814,760,000 ordinary shares.

39. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD (CONTINUED)

(ii) Impact of Covid-19

The World Health Organisation declared coronavirus and Covid-19 a global health emergency on 30 January 2020. Since then, the Group has experienced significant disruption to its operations in the following respects:

– interruptions to production activities

– significant uncertainty concerning when government lockdowns will be lifted, social distancing requirements will be eased and the long-term effects of the pandemic on the demand for the Group's primary services

Governments in the countries in which the Group operates also implemented various measures which might mitigate some of the impact of the Covid-19 pandemic to the results and liquidity position of the Group. To the extent appropriate, the Group applies for such government assistance. Details of all of the arrangements that might be available and the period throughout which they will remain available are continuing to evolve and remain subject to uncertainty.

The Directors are continuing to assess the implications of Covid-19 pandemic to the business in which the Group operates. Depending on the duration of the Covid-19 pandemic and continued negative impact on economic activity, the Group might experience further negative results, and liquidity restraints and incur additional impairments on its assets in 2021. However, the exact impact in the remainder of 2021 and thereafter cannot be predicted.

(iii) Acquisition of common shares of a listed company

On 1 February 2021, a 60% indirectly-owned subsidiary of the Company (the "Purchaser") was set up for the purpose of preparation of acquisition as follows:

On 3 February 2021, the Purchaser entered into a sale and purchase agreement with an independent third party for the acquisition of 248,431 common shares of a publicly traded German ecommerce company ("Target A"), with its shares listed on the Frankfurt Stock Exchange, representing approximately 19% of the total issued common shares of Target A, for an aggregate consideration of EUR3,709,000 (approximately HK$34,977,000). There is no condition precedent and the transaction was completed immediately on 3 February 2021. Upon the completion of acquisition, the Group owns 19% equity interests in Target A. In the opinion of the Directors, the investment provides the Group opportunities to explore the media entertainment market in Europe. Further details of the transaction were set out in the announcement of the Company on 3 February 2021.

On 26 February 2021, the Purchaser entered into a sale and purchase agreement with an independent third party for the acquisition of 260,000 common shares ("Sales Shares") of a publicly traded Swiss media and sports marketing company ("Target B"), with its shares listed on the Swiss Stock Exchange for an aggregate consideration of EUR7,064,000 (approximately HK$66,617,000). The Sales Shares represent approximately 2.91% of the total issued common shares of Target B on 26 February 2021. Target B carries its business in segments of film, sport- and event-marketing and sport events through its subsidiaries and affiliates in Europe.

40. CAPITAL RISK MANAGEMENT

The Group's objectives of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of net debt (including the borrowings disclosed in note 23, leases liabilities disclosed in note 14, less bank balances and cash) and total equity.

The Group's risk management reviews the capital structure on a semi-annual basis. The Group will consider both debt financing and equity financing for its capital requirements. As part of this review, management consider the cost of capital and the risks associated with each class of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. The gearing ratio at the end of reporting period was as follows:

	2020 HK$'000	**2019** HK$'000
Debts	411,182	439,034
Bank balances and cash	(113,899)	(325,433)
Net debt	297,283	113,601
Total equity	812,871	1,477,195
Net debt to equity ratio	36%	8%

41. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables.

Management have a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the individual customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased. In response to the Covid-19 pandemic, management has also been performing more frequent reviews of credit limits for customers in regions and industries that are severely impacted.

Trade receivables are due within 30 days (2019: 30 days) from the date of billing. Debtors with balances that are more than 2 months past due are normally requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent.

At 31 December 2020, the Group has a concentration of credit risk as 17% and 50% (2019: 17% and 46%) respectively of the total gross trade receivables were due from the Group's largest customer and the six (2019: five) largest customers respectively.

The credit risk of the Group's financial assets (which comprise gross trade receivables, other receivables and bank balances and cash) and contract assets arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The credit risk for bank balances is limited became the counter-parties are banks, with high credit rating.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases which is based on days past due for groupings of various customer segments that have similar loss patterns.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

The following tables provide information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2020 and 2019:

As at 31 December 2020	**Expected loss rate** %	**Gross Carrying Amount** HK$'000	**Loss allowance** HK$'000
Current (not past due)	0.39	27,034	106
1 to 3 months past due	1.40	14,680	205
3 to 6 months past due	6.54	7,931	519
6 to 12 months past due	13.53	6,688	905
More than 1 year past due	48.31	7,742	3,740
		64,075	5,475

As at 31 December 2019	**Expected loss rate** %	**Gross Carrying Amount** HK$'000	**Loss allowance** HK$'000
Current (not past due)	0.02	25,119	6
1 to 3 months past due	0.08	17,127	13
3 to 6 months past due	0.44	5,428	24
6 to 12 months past due	2.68	5,220	140
More than 1 year past due	53.46	15,335	8,198
		68,229	8,381

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables. The adjustment factors are based on the GDP forecast in each geographical region, including the expected impact of the government support measures in each region, such adjustment factors were increased in 2020, reflecting the actual and expected impact of the Covid-19 pandemic in each geographical region.

The following table reconciles the loss allowance account in respect of trade receivables and contract assets for the years ended 31 December 2020 and 2019:

	2020 HK$'000	**2019** HK$'000
At 1 January	8,381	3,507
Amounts written off during the year	(1,365)	(370)
Impairment loss (reversed)/recognised during the year	(900)	5,244
Disposed of upon disposal of subsidiaries	(641)	–
At 31 December	5,475	8,381

The following significant changes in the gross carrying amounts of trade receivables and contract assets contributed to the decrease in the loss allowance during the year:

– a write-off of trade receivables with a gross carrying amount of HK$1,365,000 (2019: HK$370,000) resulted in a decrease in loss allowance of HK$1,365,000 (2019: HK$370,000).

– decrease (2019: increase) in balances with days past due over 30 days resulted in a decrease in loss allowance of HK$1,398,000 (2019: increase in loss allowance of HK$5,244,000).

– Increase in the adjustment factors to expected loss rates as a consequence of the Covid-19 pandemic resulted in increase in loss allowance of HK$498,000 (2019: Nil)

Other receivables

As for other receivables, impairment loss is recognised as 12-month ECL since initial recognition. Subsequently the Group assesses whether there was a significant increase in credit risk. In determining the ECL, the Directors have taken into account the historical default experience, the financial position of the counterparties, as well as the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analyst reports and considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these other receivables occurring within their respective loss assessment time horizon, as well as the loss given default.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

The movements in the impairment allowance of other receivables were as follows:

	12-month ECL (Stage 1) HK$'000	Lifetime ECL not credit-impaired (Stage 2) HK$'000	Lifetime ECL credit-impaired (Stage 3) HK$'000	Total HK$'000
At 1 January 2019	–	–	–	–
Impairment loss recognised during the year	652	6,725	–	7,377
Amount written-off during the year	(652)	–	–	(652)
At 31 December 2019	–	6,725	–	6,725

	12-month ECL (Stage 1) HK$'000	Lifetime ECL not credit-impaired (Stage 2) HK$'000	Lifetime ECL credit-impaired (Stage 3) HK$'000	Total HK$'000
At 1 January 2020	–	6,725	–	6,725
Impairment loss recognised during the year	–	1,687	–	1,687
Amount written-off during the year	–	(2,291)	–	(2,291)
At 31 December 2020	–	6,121	–	6,121

Note: Included in the above allowance for doubtful debts in respect of other receivables is a provision for individually impaired other receivables of HK$24,427,000 (2019: $44,715,000) with a carrying amount before provision of HK$30,548,000 (2019: HK$51,440,000).

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of reporting period) and the earliest date the Group and the Company can be required to pay.

Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for borrowings is prepared based on the scheduled repayment dates:

Group	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000
2020						
SME loan	4,854	5,125	5,125	–	–	–
Other bank loans	129,011	130,525	111,198	15,031	4,296	–
Other loans	162,729	183,737	58,968	124,769	–	–
Trade payables, other payables and accruals	173,060	173,060	173,060	–	–	–
Lease liabilities	114,588	145,393	47,348	33,494	47,385	17,166
	584,242	637,840	395,699	173,294	51,681	17,166
2019						
SME loan	4,854	5,125	5,125	–	–	–
Other bank loans	97,761	101,470	76,947	24,523	–	–
Other loans	171,770	177,879	5,632	172,247	–	–
Trade payables, other payables and accruals	106,028	106,028	106,028	–	–	–
Lease liabilities	164,649	209,308	63,437	50,355	62,508	33,008
Contingent consideration payable	14,259	14,259	14,259	–	–	–
	559,321	614,069	271,428	247,125	62,508	33,008

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

The table that follows summarises the maturity analysis of bank loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were different from that disclosed in the "on demand" time band in the maturity analysis contained in above table. Taking into account the Group's financial position, the Directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The Directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Carrying amount HK$'000	**Total contractual undiscounted cash flows** HK$'000	**Within 1 year or on demand** HK$'000	**More than 1 year but less than 2 years** HK$'000	**More than 2 years but less than 5 years** HK$'000	**More than 5 years** HK$'000
31 December 2020	129,011	133,184	91,903	20,661	20,620	–
31 December 2019	97,761	103,627	31,757	71,870	–	–

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans and other loans. Five (2019: Seven) bank borrowings and one (2019: one) other loans were issued at variable rates which exposed the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out below.

The following table details the interest rate profile of the Group's net borrowings at the end of reporting period:

	2020		**2019**	
	Effective interest rate%	HK$'000	Effective interest rate%	HK$'000
Variable-rate borrowings				
Bank loans	2.25 – 6.25	62,179	4.57 – 6.25	102,615
Other loan	Prime rate	96,312	Prime rate	112,329
		158,491		214,944
Fixed-rate borrowings				
Bank loans	1.00 – 5.00	71,686	N/A	–
Other loans	3.00 – 15.00	39,352	N/A	–
		111,038		–

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk (continued)

The interest rates and terms of repayment of the Group's borrowings are disclosed in note 23.

Sensitivity analysis

As at 31 December 2020, it is estimated that a general decrease/increase of 100 basis points in interest rates, with all other variables held constant, would increase/decrease (2019: decrease/increase) the loss after taxation and increase/decrease (2019: decrease/increase) accumulated losses of the Group by HK$446,000/HK$446,000 (2019: HK$1,105,000/HK$1,105,000) respectively. Other components of consolidated equity would not be affected by the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of next reporting period. The analysis is performed on the same basis for 2019.

(d) Currency risk

Certain transactions and monetary assets and liabilities of the Group are denominated in HK$ which is different from the functional currency of the Group entities, i.e. RMB, US$ and CAD which expose the Group to currency risk. The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. The management manage its foreign currency risk by monitoring the movements of the foreign currency rates and will consider hedging significant foreign currency exposures should the need arise.

42. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised as at 31 December 2020 and 2019 may be categorised as follows:

(a) Categories of financial assets and financial liabilities

	2020 HK$'000	2019 HK$'000
Financial assets		
Financial assets at amortised cost (including cash and cash equivalents)	352,333	524,673
Financial assets at FVOCI	–	–
Financial liabilities		
Financial liabilities at amortised cost	584,242	545,062
Financial liabilities at FVTPL	–	14,259

42. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (CONTINUED)

(b) Fair values

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets which are traded on active markets are determined with reference to quoted market bid prices; and

- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models.

The Directors consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised costs in the consolidated financial statements approximate to their fair values.

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at FVOCI				
– Unlisted equity investments	–	–	–	–
– Group's retained interest in associates	–	–	185,815	185,815

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at FVOCI				
– Unlisted equity investments	–	–	–	–
– Contingent consideration payable	–	–	14,259	14,259

During the year, there was no transfers of fair value measurements between level 1 and level 2 and no transfers into or out of level 3 for both financial assets and financial liabilities.

42. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (CONTINUED)

(b) Fair values (continued)

Information about level 3 fair value measurement

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (level 3) is as follows:

	FVOCI	
	2020	**2019**
	HK$'000	HK$'000
Unlisted equity investments		
At 1 January	165,976	165,976
Unrealised fair value loss	(165,976)	(165,976)
At 31 December	–	–

	2020	**2019**
	HK$'000	HK$'000
Contingent consideration payable		
At 1 January	14,259	98,543
Imputed interest	158	3,530
Repayment	(5,410)	(45,613)
Changes in fair value	–	(41,396)
Exchange realignment	720	(805)
Reclassified to other payables remeasured at amortised cost	(9,727)	–
At 31 December	–	14,259

The contingent consideration payable arisen from a business combination in prior years, the fair value of contingent consideration payable includes a performance-based contingent consideration adjustment, which is principally based on the consideration adjustment mechanisms towards the respective target profits of the target group.

The fair value of contingent consideration payable is estimated using a discounted cash flow method.

42. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (CONTINUED)

(b) Fair values (continued)

During the year ended 31 December 2019, as the target profits of the target group was not met. Accordingly, a gain on changes in fair value of contingent consideration payable by amount of HK$41,396,000, in accordance with the consideration adjustment mechanisms, was recognised in the consolidated income statement.

During the year, since all variable conditions affecting the fair value of contingent consideration payable were confirmed, the remaining balance of the contingent consideration payable was reclassified to other payables remeasured at amortised cost.

In addition to the above financial instruments, during the disposal of subsidiaries as mentioned in note 31, the Group measured the fair value of its retained interests in associates based on significant unobservable inputs (level 3).

The valuation technique as at 31 December 2020 is as follows:

Type of financial assets or financial liabilities	Valuation technique	Significant unobservable inputs (level 3)	Sensitivity analysis
Unlisted equity investment	Cost approach	N/A	N/A
Contingent consideration payable	Income approach	Estimated profit	N/A (2019: 10% increase/(decrease) on estimated profit would result an increase/(decrease) in fair value by approximately HK$1,426,000)
Fair value of the Group's retained interest in associates on completion date	Income approach	Estimated profit and pre-tax discount	5% increase/(decrease) on average revenue growth rate would result an increase/(decrease) in fair value by approximately HK$10,413,000/ HK$(14,027,000); 1% increase/(decrease) on pre-tax discount rate would result a (decrease)/increase in fair value by approximately HK$(11,856,000)/HK$13,468,000

FIVE YEARS FINANCIAL SUMMARY

The consolidated results, assets and liabilities of the Group for the last five financial years as extracted from the audited financial statements of the Group are summarised below:

	2020 HK$'000	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000
Results					
Revenue	604,323	625,446	600,679	703,004	763,501
Loss attributable to owners of the Company	(598,527)	(400,813)	(518,030)	(524,893)	(479,377)
Assets and Liabilities					
Total assets	1,497,250	2,175,050	2,224,839	1,893,029	1,919,803
Total liabilities	(684,379)	(697,855)	(914,883)	(489,998)	(854,375)
	812,871	1,477,195	1,309,956	1,403,031	1,065,428
Non-controlling interest	28,560	(50,643)	(78,482)	(25,558)	(42,774)
Equity attributable to owners of the Company	841,431	1,426,552	1,231,474	1,377,473	1,022,654